

Pathways to the Development: A Comparative Study of Business Structure in Korea and Taiwan

A thesis submitted in fulfilment of the requirements for
the Degree of Master of Arts in Political Science at the
University of Canterbury

Koochul (K.C.) Jung

University of Canterbury
January 2008

Acknowledgments

I would firstly like to thank my family for being supportive and understanding during this long and exhaustive process. Even though there were times when disputes have arisen, I would like to thank them for the sacrifices and patience. I would like to thank my father for his helpful comments. I would also like to thank Yeri Oh for her part in helping me in researching and gathering information. In addition, I would like to thank all of friends too.

A special mention must be made of two of my supervisors. I would like to thank my supervisor Associate professor Alexander C. Tan, whose enthusiasm for the topic sparked my interest. He also gave excellent advice and was readily available and helpful. Without him, this thesis would not have been possible. My second supervisor Dr. Scott Walker was similarly helpful and encouraging.

I am very grateful for the opportunity to have studied this topic, provided to me by financial assistance from the Department of Political Science.

I am also grateful to those people who have shown an interest in my topic and have offered useful help or information during this thesis; Jill Dolby, James Reese, and Professor Bercovitch for his humorous acts and jokes.

Table of Contents

Acknowledgements	
A note on terminology	
Abstract	

Chapter 1: Introduction	1
Rationale	3
Definition	4
Brief historical account: Korea (1945-1960s)	5
Brief historical account: Taiwan (1945-1960s)	6
Differences	7
 Chapter 2: Literature Review	 11
Explanations of business and economic growth in Korea and Taiwan	11
Statism / Developmental paradigm	12
The limitations of the statist theory	16
New Institutional Economics (NIE)	19
New Economic Socieology (NES)	21
Summary and proposed modification framework	24
 Chapter 3: Theory	 26
Theoretical Framework	26
Methodology	31
Functions of the variables in the study	32
Political Conditions (X1)	32
Historical events (X2)	33
Industrial adjustments (X3)	34
 Chapter 4: State and the Business structure in Korea and Taiwan	 35
Introduction	35
Weak versus the Strong: Politics in Korea	36
Weak versus the Strong: Politics in Taiwan	37
Never a dull moment: the volatile nature of Korean Politics	39
The Weak First Republic	43
The Military Rule: 1961-1971	45
The Yushin Regime	48
The assassination and the end of 3 rd Republic	50
Summary	50
 One Party, One Family: Politics in Taiwan	 52
The nature of KMT government	52
The second chance	53
The state's public policy to private sector	54
Industrial Policy of the KMT government	56
Summary	57

Chapter 5: How Historical events change all	61
The Korean War	61
The U.S. aid and the Cheabols in Korea	64
From the USMGIK to the Korean War	66
During and after the Korean War	68
The Korean War and the distribution of the vested properties	71
The Chinese Civil War and Taiwan	77
The evolution of the KMT regime in Taiwan	77
The U.S. aid and business development in Taiwan	79
The Chinese Civil War and the distribution of the vested properties	84
Conclusion	88
Chapter 6: Industrial Adjustments.....	90
Introduction	90
Development paths in the semiconductor industry: South Korea	92
The development phase: Cheabol's role	93
The government's role	94
Summary	98
Development paths in the semiconductor industry: Taiwan	99
Introduction: early 1970s	99
Development phase	100
How Semiconductor industry expanded the SMEs	102
Conclusion	104
Chapter 7: Conclusion	107
Summary of findings	108
The lessons to be learn: implication of the thesis	111
Limitations	113
Final Remarks	

Abstract

This thesis examines the emergence of different business structure in Taiwan and South Korea. This thesis questions how, in very similar contexts, different economic institutions have evolved. In contrast to the political, market, and cultural perspectives dealing, the historical comparative institutional analysis adopted in this research suggests institutions alone could not explain the different business structure. In Korea and Taiwan, different business structure has emerged during the 1960s and 1970s, and this thesis considers three factors underlying their formations: political conditions, historical events, and industrial adjustments. The Chaebols in Korea, to a large extent are the result of a political alliance between the South Korean governments with the entrepreneurial elites to overcome their weak political support basis. Thus South Korea was, exposed largely to the leverages and influences of large business conglomerates which in turn benefited the growth of the Chaebols. In Taiwan, however, the business groups are the outcome of state policies in the economic realm. To avoid political challenges from centralized business groups, the KMT government in Taiwan distanced itself from the business sector and when necessary, exerted strong measures to restrict the business concentration. Thus, business structure in Taiwan are more diffused and balanced in its proportions. SMEs produce most of the export goods while the Large enterprises and State own enterprises produce the domestic consumer goods.

This thesis pilots aspects of an alternative explanation, which aims to add additional explanation to the literature. Contrary to the prior conception of the institutional logic, the thesis concludes that growth of business structure in East Asia must incorporate attributes of historical and political conditions that support the entrepreneurial behavior, and the wider environment that serves to deter or reinforce risk-taking behavior.

List of Acronyms:

CCP:	Chinese Communist Party
Cheabols:	Business conglomerate in Korea
CRIK:	Crisis Relief in Korea
DPP:	Democratic Progressive Party
ECA:	Economic Cooperation Administration
EIAK:	Electronics Industry Association
EOS:	Export Oriented Strategy
EPB:	Economic Planning Board
ERSO:	Electronic Research Service Organization
FDI:	Foreign Direct Investment
FOA:	Food and Agricultural Organization
GARIOA:	Government and Relief in Occupied Area
HCIP:	Heavy and Chemical Industrialization Plan
ICA:	International Crisis Aid
ISI:	Import substitution industrialization
ITRI:	Industrial Technology Research Institute
KCIA:	Korean Central Intelligence Agency
KIET:	Korean Institute of Electronics Technology
KMT:	Koumintang
LDCs:	Less developed countries
LEs:	Large Enterprises
MOEA:	Ministry of Economic Affairs
MSA:	Mutual Security Agency

MTI:	Ministry of Trade and Industry
NES:	New economic sociology
NICs:	Newly Industrialized countries
NIE:	New institutional economics
NT:	New Taiwan Dollar
R&D:	Research and Development
SAIC:	Application Specific Integrated Circuit
SMEs:	Small and medium enterprises
SOEs:	State Owned Enterprises
STAG:	Science and Technology Advisory Group
TCE:	Transaction cost economics
TSMC:	Taiwanese Semiconductor Manufacturing Company
UMC:	United Microelectronics Company
UNKRA:	United Nations Korea Reconstruction Agency
USGIK:	United States Military Government in Korea
VLSIC:	Very Large Scale Integrated Circuit

Chapter 1

Introduction

It is important to study business structures in political science for the following reasons: first, business structure affects national income distributions; second, it affects the economic performance of a nation; and third, politics influence and shape economic activity and business, as economic action is socially specified and never simply a matter of cost-benefit analysis (Oru 1991). A comparison of South Korea (hereafter, Korea) and the Republic of China (hereafter, Taiwan) offers a ready example of what different business structures mean for a nation and how they are developed.

Business groups are a central aspect of capitalism in both developed and developing countries. Such groups play dominant roles in the economic and political realms of widely divergent societies. This thesis examines the emergence of business groups in Korea and Taiwan, and questions how in very similar settings, different economic organizations emerge. In both countries business groups emerged during the late 1940s and became dominant actors in their respective economies in the 1970s – for this reason, the analysis is confined to this period.

Theoretically, discussions in different business structures in Korea and Taiwan are based on the three theoretical approaches: neoclassical-oriented approach often referred as statism, the new institutional economic thesis, and the new economic sociology (NES), covering many of the substantive areas of old economic sociology but with a theoretical approach, which is fundamentally more eclectic and pluralistic (Powell and DiMaggio 1991; Swedberg 1994).

Some of more recent political economy literatures state the relationship between businesses sector and governments in Korea shared more of bilateral relationship than the unilaterally imposed where interplay between the government and business groups are found (Park 1982; Chang and Choi 1988; Kang 2002; Chu 1989). These literatures, although concentrates in Korea, suggests that Korea and Taiwan's different business structure rest not only in their institutional difference, but also in many other factors such as political development, economic history and some even argues the cultural heritage

This thesis will explain how different business structure developed in Korea and Taiwan. Using the literatures from variety of discipline,¹and will account how businesses in Korea and Taiwan developed under the relatively similar political, economical and historical setting but produced different results. Studying how business develops in countries may seem of less interest to political scientists. However, I argue that studying how politics affects the structural difference in the business sector is important for the following reasons.

First, the different business structure affects national income distribution. By having a different business structure, Korea and Taiwan have both experienced differences in how national income is distributed. Korea is the case where national income is unequal while Taiwan is a case where income distribution is relatively equal (Wade 1990). Second, it affects the economic performance of a nation. Having a different business structure, Taiwan suffered less from the 1997 Asian financial crisis compared to South Korea (Heo and Tan 2003; Heo and Kim 2000). Third, politics influence and shape the

¹ For the research of this thesis, I have consulted literatures from political science, economics, management, and sociology.

economic action as well as businesses. The interrelationship of politics and business organization emphasize that economic action is socially specified and that economic action is never simply a matter of cost-benefit calculations (Orru 1991).

Prior literatures in the NICs development focused heavily on explaining the governments' influence in the different businesses structures in Korea and Taiwan, explaining how government in Korea and Taiwan set up institutions to deliver the uniquely different business structures in Korea and Taiwan. For this, the prior literatures have contributed in explaining how the different intuitional arrangements have affected the business structure in Korea and Taiwan. However, this thesis attempts to explain why different institutional arrangements have been embedded to Korea and Taiwan, thus bringing different outcomes.

Rationale

This study will bridge between the classical oriented literature and the recent organizational study. The study in the business structure in Korea and Taiwan is crying for more attention as there still unanswered question of why Korea and Taiwan developed a different institutional arrangements. This gap, I argue can only be filled by examining the question in different perspective. Thus, in this thesis, I attempt to conceptualize and explain the different business structure in Korea and Taiwan by providing a theoretical framework showing how institutional arrangements in the two countries have progressed over time by explaining how Korea and Taiwan reacted to three of the following factors: (a) political condition; (b) historical event; (c) industrial adjustment.

However, first priority will be given to the definitions and the important background information. The definition part will introduce and explain some of the less-familiar terms to the readers and the background information section will serve to account the similarities and the differences in Korea and Taiwan to set further discussions in later chapters.

Definitions

For this study, the small and the medium enterprises (SMEs) in Taiwan generally have paid in capital not exceeding NT\$ 80 million; or regular employees not exceeded 200 people (Fields 1995; MOEA 2005, SMEs/government).

Cheabols refer to the huge conglomerate business tycoon in Korea. It is a south Korean form of business conglomerate meaning “business group” or “trust” in Korean. However, the word Chaebol is used frequently in the way “big business” is used in English. Some Chaebols are one large corporation, while others have broken up into loosely connected groups of separate companies sharing a common name. Even in the latter case, each is usually owned, controlled and/or managed by the same family group (Field 1995; Kong 1991). South Korea’s chaebols are often compared with Japan’s “keiretsu” business groupings, the successors to the pre-war ‘zaibatsu’. While the ‘chaebols’ are similar to the ‘keiretsu’, (the two words are Korean and Japanese pronunciations of the same Chinese characters) ‘chaebols’ and ‘keiretsu’, there are two major difference between them. First, chaeobls are largely controlled by their founding families, while groups of professional managers control keiretsu. Second, while chaebols are centralized in ownership, Keirtsu are more decentralized and connected by corss-shareholdings (Kong 1993; Fields 1995).

A brief historical account of Korea (1945 to the early 1960s)

With the end of the Japanese occupation in 1945, Korea was in chaos. During the colonial period, 1910-45, the Japanese government attempted to completely integrate the Korean economy with that of Japan. Japan introduced many modern economic and social institutions, and invested heavily in infrastructure, including schools, railroads and utilities.² Most of these physical facilities remained in Korea after the Liberation but due to a lack of a managerial work force to run them, a shortage of raw materials, and instability in the political and social environment, the economy was in an extremely poor condition and never recovered to pre-liberation prosperity (Kim and Roemer 1979).

Contributing to further economic decline, the Korean War (1950 - 1953) severely damaged the economy by destroying most production facilities and killing approximately one million soldiers and civilians. During the post-war period 1954-61, the economy gradually improved. Gross domestic product (GDP) growth rate was about 4.1 percent, although per capita income grew by only 0.8 percent per annum due to rapid population growth. The economic growth during this period was led largely by massive foreign aid, which supplied raw materials and capital goods to the Korean economy. It is estimated that between 1953-60, foreign aid financed more than 70 percent of total imports, and contributed approximately 95 percent of foreign savings (Collins and Park 1989, p.167; Kim and Roemer 1979; Haggard 1988,1990; Corbo and Suh 1992).

² Japanese colonial government did the same to Taiwan as part of its imperial expansion to the South.

Korea's unprecedented record of economic growth started in the early 1960s when government policy shifted away from import substitution towards export orientation. The Park regime, which came into power in 1961, committed itself to economic development and pursued comprehensive policies of trade reform and export promotion. The shift of development strategy from import substitution to export orientation was helped by the concentration of political power in the military government, which prevented any interference from interest groups, the legislation, and bureaucratic forces (see Haggard, Moon, and Kim 1991). Exporters were provided with extensive direct export subsidies and other incentives, including tax exemption, and export loans with preferential interest rates. In 1964 the government devalued the domestic currency by almost 100 percent against the US dollar, further eliminating the bias against export industries. The government also undertook a series of policies to encourage inflows of foreign capital to make up for the insufficiency of domestic savings.

A brief historical account of Taiwan from Japanese liberation to the early 1960s

Similar to Korea, the destruction and chaos of World War II and a subsequent war on domestic soil, the Chinese civil war, created substantial economic dislocation. As was the case in Korea, the reconstruction tasks in Taiwan after the Japanese withdrawal were discouraging with 1946 industrial and agricultural production less than half 1937 levels (Lin 1973, 37; Haggard 1990, 79). The island's real net-domestic product in 1946 was only 55 percent of the 1937 level and did not reach the pre-war figure until 1950 (Kuznets 1979: 33-36). Taiwan in 1949 had a per capita income of U.S. \$ 224 with an inflation rate of over 3,000 percent (Field 1995). However, by the 1960s, Taiwan's inflation rate had dropped from 3,000 percent to 1.9 percent, and by 1992, official per

capita income had passed the U.S. \$10,000 mark (Fields 1995; Cummings 1987; Clark 1987).

Economic problems were exacerbated by the harsh and repressive administration of Ch'en Yi (governed from 1935-1947), whose corrupt and brutal policies led to a local Taiwanese uprising in February 1947 and its subsequent ruthless squelching by the government. Economic problems were heightened further by the Chinese Civil War. When the Kuomintang regime of Chiang Kai-shek lost to Mao and moved to Taiwan in 1947, the government was composed primarily of "Mainlanders" who were viewed with suspicion by the local Taiwanese (Gold 1986). The result was a nation in economic and social turmoil much like that of Korea after the Korean War.

The extension of a U.S. security umbrella guaranteed the revival of Taiwan after the outbreak of the Korean War in 1950. A reconstituted Taiwanese government made an important decision to promote rapid economic development. In the last 35 years, real GNP growth has averaged approximately 9 percent. Income per capita rose from \$195 in 1952 to just over \$3,000 in 1985 as the economy was transformed from one dominated by agriculture to one dominated by industry. Once growth began to accelerate in the 1960s, the savings and investment rates grew increasingly higher, averaging about 30 percent of GDP during the 1970s and 1980s.

Differences

Despite prominent historical similarities between Korea and Taiwan, one can also see striking differences in business structure. While small and medium enterprises flourished (SMEs) in Taiwan as major employers and exporters, a gigantic

conglomerate-led industrial structure dominated in Korea. The structural differences in the business sectors of Korea and Taiwan are well documented in the literature on cross-national variations within the East Asian region (Chu 1989; Cheng and Haggard 1987; Haggard 1990; Gereffi and Wyman 1990; Cheng 2001).

Table 1 is a comparison of small and medium business sectors in Korea and Taiwan and clearly shows that the number of small businesses in Korea is less than Taiwan.

(Table 1):Variations in Small Business Activities in Korea and Taiwan		
	Korea (South)	Taiwan
Number of SMEs per 1000 people	4.3 (1988)	6.7 (1986)
SME share of manufacturing employer	57.6 (1986)	70.6 (1985)
SME share of manufacturing value-added	37.6 (1985)	42.5 (1985)
SMEs share of manufacturing exports	30.5 (1986)	60.0+ (1986)

Park 2001, 847

Although at late 1980s figure, the striking difference is visible. The ratio figure suggest that in Korea, about 2.4 less number of SMEs are present when compare to Taiwan. The real difference however is visible at the SME share of manufacturing employer and export sections. Here according to the table, SMEs share in Taiwan are nearly double the output of Korea. This indicates that in Korea SMEs play quite a limited role in the economic sector. SMEs in Taiwan on the other hand, played crucial role in creating employments and driving the economic growth. .

Table 2: Comparison of Korean and Taiwanese business groups

Comparison of scale and centrality of Korean and Taiwanese business groups, 1983				
	Korean Top 50	Korean Top 5	Taiwan Top 5	Taiwan Top 96
Equivalent U.S. \$ (billion)	68.32	43.98	5.28	16.48
Percentage of GNP	93.8	52.4	10.3	31.7
Number of Workers	N.A	446,906	126,279	330,000

Fields in Maxfield and Schneider eds. 1997, 131; Hamilton et al 1988

Table 2 offers another interesting comparison. This time, the figures indicate Korea's five largest conglomerates had total sales of U.S. \$ 44 billion and employed nearly 45 million workers in 1983. Taiwan's top five companies, on the other hand, had a total sales ratio of 1 to 8.3 which is far less in quantity when compared to the top five Korean businesses (Fields in Maxfield and Schnieder eds. 1997, 131). This table indicates one thing clearly. In Korea, the economy is totally dependent on the performance of the business conglomerates most often refers as chaebols. This is indicated in the comparison between the scale and centrality of top 50 Korean business groups and top 96 Taiwan business groups in table 2. Equivalent to the U.S. billion dollars, total figure up to 1987 in Korea is 68.32 while for Taiwan the amount is 16.48 (Fields in Maxfield and Schnieder 1997, citing Hamilton et al, 1987).

The difference is clearer when one looks at the comparison of the figures for Korean top 5 and Taiwan's top 5 business group. Here, the difference is much higher where in

Korea the top 5 conglomerates contribute 43.98 and for Taiwan 5.28. This clearly indicates that there is a difference in the business structure in Korea and Taiwan.

Further indicators do also indicate such differences in the business structures in Korea and Taiwan. First, Korea and Taiwan have experienced marked differences in national income distribution. In the case of Korea, national income is unequal while in Taiwan the distribution of income is relatively equal (Wade 1991). From an economic perspective these structural differences allowed the economy of Taiwan to suffer much less from the 1997 Asian financial crisis compared to South Korea (Heo and Tan 2003; Heo and Kim 2000).

This thesis will examine the different business structure in South Korea (Korea, hereafter) and Republic of China (Taiwan, hereafter). In chapter one, the paper will review and discuss similarities and the differences in Korea and Taiwan in respect to their politics, history, and their unique business structure. Review of relevant literatures will follow in Chapter 2. Chapter 3 will introduce the underlying theory upon which this thesis is based, introduce the framework of the study, and posit hypotheses for this thesis. In chapter four, available primary and secondary resources will be used to evaluate and test the hypotheses raised in Chapter 3. Chapter 5 will summarize the findings and make concluding remarks. The goal of this thesis is to fill a gap in the political science literature by providing a meaningful explanation as to how business structures develop, as seen through a case study of Korean and Taiwanese industrial structures.

Chapter 2: Literature Review

Explanations of business and economic growth in Korea and Taiwan

The following chapter will review literature relevant to Korea and Taiwan's business and economic growth. The review will highlight three theoretical paradigms: the statist or developmental paradigm (hereafter, statist); the new institutional economics paradigm (NIE); and the new economic sociology paradigm (NES). These theoretical paradigms are important as the majority of research on this topic uses one of the three theoretical approaches as the basis of analysis. In addition to reviewing the relevant literature, this chapter will evaluate the strengths and weaknesses of each paradigm and derive a modified theoretical framework that will explain the topic of this thesis better.

The statist paradigm links differences in business structures in Korea and Taiwan to differences in their policy choice. The NIE paradigm looks at how institutions develop and affect policy choices by explaining Korea and Taiwan's differing business structures as an outcome of micro-economic differences in the two nations. The new economic sociology paradigm has originally derived from the new institutional economics paradigm. It is thought to be a more adaptive paradigm capable of explaining the differences in business structure as it takes into account the effects of socio-cultural macrostructures on economic structures without losing empiricism (Fields 1995; Swedberg 1994).

The Statist Paradigm

This section begins by reviewing scholarly literatures in East Asian newly industrialized countries (NICs). The neoclassical explanation for economic growth in Korea and

Taiwan relies on two basic arguments: (1) state intervention in NICs was lower than was typical of less-developed countries (LDCs) (Sach and Susan Collins eds., 1989; Cummings 1989), (2) a stable macroeconomic environment and a commitment to exports promoted domestic and international competitiveness (Gereffi and Wyman 1990; Cheng 1990; Haggard 1999).

The Former is the basis of statist arguments, arguing that such state intervention to augment the market signals was tendency found in the NICs in East Asia. The latter is the basis of the developmental theory arguing that the East Asian development was a result of states' unequivocal macroeconomic measures. Both statist and developmental theorist emphasize that Korea and Taiwan had realistic exchange rates, lower effective rates of protection, and less governmental interference in the labor and commodity markets than other LDCs (World Bank, 1990).

Literature by Alice Amsden (1989), Robert Wade (1990) and Stephan Haggard (1990) provide a reflection on the study of East Asian development and are centered on statist theory. Their work provides a basis of study for cross-national differences of industrial structures, thus providing a starting point for this study. Amsden's (1989) focuses on Korea, while Wade's (1990) focus is Taiwan. Haggard (1990) compares Korea and Taiwan's developmental strategies and makes comparison with Latin American countries. In the case of South Korea, it is argued that elites have maintained their autonomy by protecting their country's need for stability while maintaining an authoritarian regime. This authoritarian government has imposed suppressive measures on society in the name of economic growth. The free market economy, entrepreneurial investment, democracy and human rights have been overruled by concerns for

economic growth. Johnson (1982) and Amsden (1989) have argued that this measure was necessary to achieve rapid economic growth.

Amsden (1989) proposed a new development paradigm, which she termed the “late industrializing model” (Amsden 1989, p.8). Late industrialization emphasizes learning as opposed to invention and innovation-the hallmark of earlier industrialization. In so doing, Amsden (1989) highlights two critical features of the Korean case: first, “the state intervenes with subsidies deliberately to distort relative prices in order to stimulate economic activity” (Amsden 1989, 8). Second, “in exchange for subsidies, the state has imposed performance standards on private firms,” (Amsden 1989, p. 8). These two features are made possible by a third, institutional, factor; namely, a strong state: “Industrialization was late in coming to ‘backwards’ countries because they were too weak to mobilize forces to inaugurate economic development,” (Amsden, 1989, 12).

For Amsden, one special feature of South Korea’s industrialization is that the state intervened in the market with subsidies. Governments in East Asia, in general, have imposed performance standards on private firms in exchange for subsidies, (Amsden 1989, 8). According to Amsden’s model, governments of South Korea, Taiwan and Japan have successfully maneuver industrial policy, intervened in market activities, managed private firms and carried out the role of an elder brother looking after and governing the market. A unique feature of late-industrializing countries such as South Korea is the disciplinary actions taken by the government to control private firms (Amsden 1989, 14). In Korea, to achieve economic growth, a division of roles between the government and the industrial sector have developed. It is argued that the state planned and initiated industrialization and industry followed their lead. The relationship

between the state and industry is hierarchical and top-down. Thus, in South Korea, economic growth and the resulting business structures were the result of strong leadership (Amsden 1989; Johnson 1987; Jones and Sakong, 1980; White and Wade 1985; Wade 1988, 1990, 1992; Weiss 1995; World Bank 1993; Kim 1995).

For Taiwan, Wade's (1990) discussion is similar in focus to that of Amsden (1989). However, his primary objective was to challenge neo-classical explanations for Taiwan's growth. Wade (1990) argues, "...The state in Taiwan has been doing much more than the neoclassical accounts recognize to increase supply responsiveness and to steer the direction of industrial growth" (Wade 1990, 73). Wade carefully examines the state, foreign trade and investment, domestic investment, industrial policy, the bureaucracy, the political system, and the politics of investment. He concludes that in Taiwan,

"The government has acted to alter the social structure of investment profoundly, making it more conducive to industrial investment. Second, the government has affected relative prices in such a way as to...encourage investment. Third, the government has used a number of more direct methods to shape the investment patterns" (Wade 1990, 301)

This is clearest in the case of Taiwan's public enterprise sector, one of the biggest in the non-communist world (Wade, 1990, 301-302). Wade, like Amsden (1989), focuses on the ways in which the state has intervened positively in the market, shaping economic actors and the market to increase economic growth.

Stephan Haggard (1990) used the term "East Asian mold" while contrasting the development experiences of newly industrialized countries (NICs) and Latin America. Those countries fitting the "East Asian mould" have a relatively autonomous state, a highly centralized and interventionist government, bureaucracy, and a weaker left party

(Haggard 1990, 115). Haggard believes East Asian economic successes have been the result of government export policies (Haggard 1990, 16-17). For Haggard, the success of Taiwan and South Korea is based on government policy, which enabled both countries to efficiently achieve a competitive advantage. Thus, enterprises in Taiwan and South Korea were benefactors of government policies and incentives, not a driving force of economic growth. Furthermore, it is argued that East Asian development is a result of authoritarian capitalism. The rapid economic development achieved by Taiwan and South Korea was possible due to the government's strong role in suppressing the need for the distribution of incomes from the labor unions.

Overall, these neo-classically oriented literatures on comparative political economy suggest that Korea and Taiwan's success was due to the autonomy and developmental orientation of their states, which led them to promote exports and act as gatekeepers for foreign direct investment (FDI). According to the statist thesis, the difference in business structures in Korea and Taiwan is linked to differences in the governmental objectives of the two nations. Korea, to achieve fast growth, used government subsidies and competitive advantages to successfully control and manipulate the market thereby creating the chaebol structure. By contrast, Taiwan had a need for the political stability and equal-distribution of income which led the government to SMEs policy (Haggard 1990; Amsden 1984; Park 2001; World Bank 1993; Wade 1990)

The Limitations of the Developmental Paradigm

The following section will demonstrate why the developmental paradigm is particularly handicapped in explaining the different business developments in Korea and Taiwan. I will comment on the theory of state-led growth and its theoretical assumptions of state

intervention or state guidance. This is to point out the limits of the statist theory in explaining cross-national variations in industrial structure, especially in Korea.

The first problem with the developmental paradigm is its notion of the “visible-hand,” in which too much emphasis is attributed to the role of governments (Koo 1987, 165). Almost all literatures that highlight state-led development theory treat government as a sole independent variable and dismiss or simply ignore other variables such as private enterprises, international labor distribution and international political economy. In addition, internal economic conditions and activities of private entrepreneurs are minimized and treated as dependent variables only. This criticism is evident in Kuos’ (1995) argument which discards the developmental paradigm for a ‘tripartite-scheme’ in which economic outcomes are determined by differences in state-enterprise networks.

The second problem with the developmental paradigm lay in its notion of a “strong state”. A nation is considered to have a strong state if it can pursue its policies. This rather vague definition of a strong state has been much criticized (Shafer 1990). The term, “strong state” is relative and changes over time, according to social issues, government ideology and coalitions (Evans 1995). Shafer (1990) argues that the criteria for a strong and weak state are synonymous. It is hard to accept the explanatory value of ‘strong state,’ when the criteria to be a strong state is judged by its end result.

The developmental paradigm assumes that a strong government will be eternal and will have maintained predominant autonomy. This, however, is overly simplistic and misleading. Even if the government’s role in leading industrialization was effective in its initial stages, its role and effectiveness will erode as private firms achieve financial

and technological growth (Hobday 1995). It is evident according to Sakong (1993) and Johnson (1989) that the role of government in leading South Korea's industrialization has eroded over time. The Korean government's influence in economic affairs is now less evident than it was in the initial stages of industrialization.

A third problem with the developmental paradigm is its top-down approach to explaining the relationship between state and private enterprises. This approach explains only the objective side of policy implementation while ignoring the real results of policy implementation as well as the process of financial accumulation necessary in industrialization (Kang 1995, 22).

Fourth and the final problem with the developmental paradigm is that the period of East Asian industrial development and the structure of productions in the international economy strongly correlate. Koo (1987) argues that from the 1960s to early 1970s, the international capitalistic economy was growing. Many capitalist countries were willing to invest and lend money and interest rates were low. Trade barriers were relatively low for industrializing countries and these countries faced few challenges from other developing countries with respect to cheap labor. Lastly, the Vietnam War helped economic growth in both South Korea and Taiwan (Koo 1993, 169).

To look beyond questions of state choice and economic efficiency towards understanding the relationship between politics and business structure is a daunting task. Nevertheless, it is interesting and important to understand the evolution of industrial structure, as it not only gives one insight into economic activities but also reflects the nature of politics. Scholars have attempted to conceptualize the politics

behind the market by incorporating such variables as the relative weakness of laborers as a group, successful land reforms, culture and leadership, the role of agriculture, and the limited role of foreign capital (see Deyo 1989; Cheng 1990, 1993; Burmeister 1990; Kuo 1991; Lee 1992). Identifying these factors is less difficult than conceptualizing them in a systematic way. In the following section, I will introduce two more theoretical approaches – New Institutional Economics (NIE) and New Economic Sociology (NES), on which Karl Fields (1995) partly bases his framework. Both NIE and NES evolved in reaction to the developmental thesis. NIE grew out of neoclassical economics and deductive theory and assumes that economic actions are embedded in ongoing state-society relationship. This means that the choices of both individuals and businesses are embedded in institutional settings, which emerge from societal settings.³ Developing from NIE, NES is more eclectic and pluralistic in its theoretical approach. NES covers many of the substantive areas of old economic sociology (Smelser and Swedberg 1994, 18).

Prior scholars have utilized all three theoretical approaches in explaining the different industrial structures in Korea and Taiwan: Amsden (1984) utilized and based her thesis strongly on the statist or developmental thesis. By contrast, Fields (1995) and Kuo (1995) based their writing on the NIE theoretical framework. However, I must add that while Fields' study is oriented in the NIE tradition, the approach is more favorable to the NES approach.

New Institutional Economics (NIE)

³ Karl Fields' 1995 publication took exactly this approach by centering his argument on the new institutional economics while being flexible and incorporating NES approach.

The NIE paradigm counters the oversimplification found in neo-classical economics theory. In contrast to neo-classical economics, NIE shifted its focus from assumptions of the perfect rationality of actors to allowing for a greater range of human actions, including rational actions. Works by Williamson (1990, 1993, 1999) and others (North 1990; Smelser and Swedberg 1994b) have made an enormous contribution to the subject of business organization.

NIE draws on the analytical heritage of Ronald Coases's work on property rights (R.H. Coase 1937; 1960). Nabli and Nugent (1989) divide the NIE literature into two components: (1) the transaction and information costs approach, which includes work on transaction costs, property rights analysis, asymmetry of information and principal agent problems (Coases 1937; Williamson 1999, 1993, 1990) and (2) the literature on collective action and rent-seeking. Clearly, there is considerable difference between NIE and classical economics in which the fundamental rule is that "actors are uninfluenced by other actors." This ideal-typical view of classical economics has been challenged by NIE. Perfect individual rationality is the fundamental assumption of neoclassical microeconomics. This assumption was challenged by Williamson who introduced Simon's (1957) idea of bounded rationality into NIE.

Williamson's transaction cost economics (TCEs) approach is probably the most influential literature in NIE. In his institutional analysis, he focuses on explaining a business organization's means of reducing transaction costs. Contracts and corporate institutional arrangement will evolve to overcome the uncertainty of transactions (Hamilton, 1999). The TCE approach of NIE is visible in the following literatures that

attempt to analyze the organization of firms in Korea and Taiwan (Choi B. S., 1987; Leff 1978;).

The NIE approach overcomes the problems of the developmental paradigm by reducing the state's role in the development and organization of business structures. It provides a more diverse explanation of the orientation of businesses and is adequate and instructive for studying complex transactions and network orientation. Fligstein (1985) compares various theories of what causes changes in business organization from the unitary form (what he refers to as [U-form]) to a multidivisional structure (what he refers to as [M-form]). According to him, this is caused by the cumulative effects of "control loss" which comes with increasing size due to transaction costs, bounded rationality and opportunism. The construction of courses of action depends greatly on the position of actors within the structure of business organization, which forms the interest and identities of actors (Fligstein 1990, p. 11). However, by treating institutional arrangements as efficient solutions rationally supplied to resolve economic problems, the theory cannot avoid oversimplification based on "assumed rationality". This, in effect, precludes the inclusion of social, cultural and political factors, thereby causing the theory to move little beyond the neoclassical approach, which it claims to overcome (Powell and DiMaggio 1991; Granovetter 1992; Fields 1995; Hamilton and Biggart 1988).

Overall, the NIE literature argues that Cheabols in Korea chose to be multifaceted hierarchically organized business organizations in order to reduce their transaction costs. Although the approach of TCE's micro-analytical level of analysis provides accurate and concise information about a degree of the organizational behaviour, the

theory is still bounded within the markets and hierarchy approach to economic organization.

To paraphrase the development of Korea's chaebol and Taiwan's SMEs into a single phenomenon is too simple. The NIE theory leaves little room for comparative study and cannot effectively explain how Korea's chaebols evolved to reduce transaction cost and why Taiwan did not follow in the same suit with more big enterprises.

New Economic Sociology

According to Smelser and Swedberg (1994, 18), the new economic sociology (NES) covers many of the substantive areas of old economic sociology but with a theoretical approach, which is fundamentally more eclectic and pluralistic. No single perspective is dominant in the NES.

Fields (1995), recommends the NES as the most suitable theoretical framework to use when addressing business structure. Fields utilizes this framework for his work on "institutional-embeddedness", (Fields 1995; see Powell and DiMaggio 1991 for comprehensive explanation on the NES). Unlike the NEI approach, the NES examines the effects of socio-cultural macrostructures on economic structures, and emphasizes how historical and structural factors bring variation (Field 1994; Gerlach 1992; Orru 1991). NES oriented research brought a new perspective to the study of Korea and Taiwan. Orru (1991), argues that institutional or "socially-constructed normative worlds in which organizations exist" shape and distinguish the organizational and inter-organizational structures of firms in Japan, Korea and Taiwan. Whitley, (1992) in his comparative studies of business, concludes that the systems vary because of the socially

constructed nature of their market failure and because of significant differences in their institutional environments (Whitely 1992).

Karl Fields (1995) describes the distinction of the NIE and the NES in a systematic manner specific to the study of business organization and his descriptions are applicable to the case of Korea and Taiwan.

“...Institutional economics examines the effects of contracts and other micro level transactions on macrostructures such as vertical integration, and presents the possibility of an infinite universe of institutional forms, each most efficient in its own idiosyncratic context. In contrast, economic sociology examines the effects of socio-cultural macrostructures on economic microstructures and emphasizes how historical and structural factors in fact narrow the range of institutional forms that actually emerge in a given society,” (Fields 1995, p. 18).

Fields (1995) provided clear but profound point because he ventures away from the middle ground of a “new institutionalism” based on rational market responses and cultural explanations for the development of embedded enterprise groups in Korea and Taiwan. His attempt to find the “nexus” of rational market responses, persistent socio-cultural norms and state industrial policies is an admirable work, which initiated the passion of researching this topic.

However, Fields’ work brings more questions than answers. In particular, his analysis of ‘familism’ in explaining the growth of SMEs brings more confusion. I argue that, ‘family network’ represented as ‘familism’ is also found in the chaebols in Korea. The head of the Group and his /her relatives control management of the firms and branches. Then, the value of ‘familism’ as an explanatory independent variable loses its values since both the Chaebols and SMEs share common ‘familism’ value and the distinction between the Chaebols and SMEs becomes irrelevant as it can only explain similarities, but not the differences (Biggar 1997a, 18).

The other weakness of Fields' analysis comes from his findings. Fields (1995) examined financial systems and their use by the state to implement industrial policy and argues that the institutional difference that have fashioned the very different business groups and trading enterprises in Korea and Taiwan derived from difference in their financial policy toward industrial sector. Fields (1995) found that the Korean state, which focused on rapid economic growth, achieved this by heavy subsidy of the cheabols and affiliated general trading companies. In Taiwan the KMT regime wanted to promote economic stability and prevent the over concentration of private capital. This is telling the same story using a different approach, moving little from what he intended to do.

In addition, the picture Fields draws of the social and cultural context is not compelling evidence. He links peculiar Asian ties of trust or Chinese heritage to effective market relations and concludes that "this combination of formal and informal institutional aids to the market have clearly given East Asia an institutional edge over its Western competitors," (Fields 1995, 244). However, I wonder why Korea did not follow the same path, if it is "Asian values" that determined the size and the scope of industrial structures in Taiwan. Why could Korea be the same? In addition, even if one differentiates Taiwan from Korea using "Chinese heritage" variable, the difference between the local Taiwanese and the mainlanders remains unanswered. If in Taiwan, "Chinese heritage" was a factor in determining the size of industrial structure, how can one explain the cleavage between the local Taiwanese and the Mainlanders? Both share the same Chinese heritage but the closer area studies of Hong (2001, 2002) reveals an ethnic difference between the local Taiwanese oriented in SMEs and the state own enterprises (SOEs) (Hong 2001, 2002). I argue that the problem lies within the

‘cultural perspectives’. Although cultural perspectives, in contrast to other explanation are in detail, often filled with elements of social life and social actions, the major weakness of the cultural explanation is that “culture pervades everything and therefore explains everything,” as Hamilton and Biggart (1988, 87) argued. Therefore, this thesis will avoid in examining the cultural aspects, as it will explain only the similarities but not the differences.

Summary and proposed modification of ‘institutional-embeddedness’

I argue that these problems can be overcome by examining the subject from a different perspective. Rather than studying institutions themselves as a means to understand the different business structural outcome in Korea and Taiwan, examining the institutional development along with the business development will give a better picture of why such difference had occurred in Korea and Taiwan. Simply put, I argue that study in different business structure in Korea and Taiwan needs a new approach; away from the traditional ways of thinking that is, the governments and institutions influence the industrial structure in Korea and Taiwan. In fact the relationship was more dyadic in Korea. Contrary to what the traditional studies have analyzed, businesses elites in Korea have also influenced the politics and institutions settings. But in Taiwan, one will see a more government influence toward the business sectors.

Therefore, rather than studying institutions themselves as a means to understand the problem, treating institutional development as the focus of study would give much more fluidity in analyzing how different business structures in Korea and Taiwan came into being. More precisely, this study will look at differences in industrial structure in Korea

and Taiwan's response through political conditions, historical events and industrial adjustments.

This thesis will achieve the following two objectives. First, this study will elucidate how government policy responses to business structure are related to historical, economical and political relations. Second, the study will explain how Korea and Taiwan's policy responses created the uniquely different institutions at the state level as well as at the private level. This is because the prior literatures largely fail to account why Chaebols grew so large and powerful. Thus, I proposed a modified framework to account the progressive nature institutional-embeddedness where the interplay between the business sector and the government can be explained

I argue that the institutional structures, especially the economic and industrial structures that have developed in relation to the growth of business through historical, economic and political conditions have played a major role in shaping the business structure in Korea. On the other hand, in Taiwan, such a relationship between the state and business groups is less visible as the KMT regime in Taiwan exerted strong influence to the business sector until the mid 1970s (Wu 2005; Chen 2001).

Chapter 3: Theoretical Framework

“Two broad paradigms-between which there has been remarkably little communication-have dominated thinking on the economic development of the NICs: the neoclassical view and the dependency perspective. Both suffer from the same weakness- they neglect politics and institutions.”

(Stephan Haggard, 1990. p.9)

The weaknesses Haggard (1990) pointed out in this statement are now less visible in the NIC literature. The current weakness, however, is an over-reliance on institutional analysis as argued by Fields (1995). A fusion of neo-classical and institutional analysis dominates the debate on NIC development and growth. Fields (1995) observed the different enterprise structures in Korea and Taiwan and concluded that what made the difference was the “different state institutions” (Fields 1995, 23). Haggard (1990) also argued that it was institutional differences, which made Korea and Taiwan pursue different export-oriented strategy (EOS) and industrial structures. The institutional approach of NIE provides a useful understanding of economic growth and development phases. In particular, the TCE approach within NIE makes a push to shift from state-centric analysis to more organizational-centered approaches. As discussed in chapter 2, the NIE approach is still limited in its ability to explain the development of different industrial structures in Korea and Taiwan.

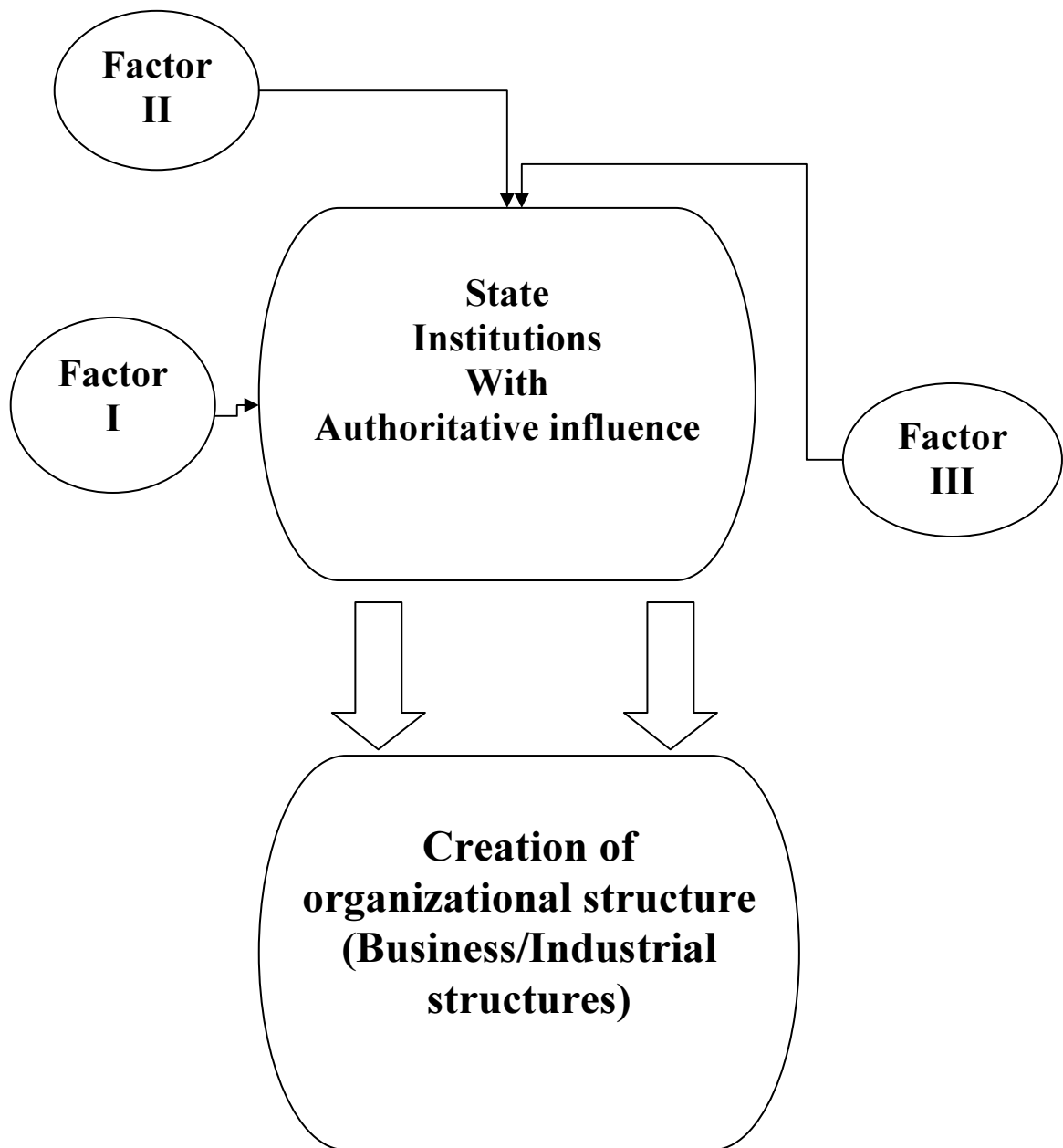
Theoretical Framework

This study is attempting to approach business structuring from a different angle. This study fits into the NES theoretical framework, as the eclectic orientation and the focus of the study derives from the ‘institutional-embeddedness’ This study modifies Karl Fields’ original framework to provide a better explanation of the different business structure in Korea and Taiwan.

Although similar in many ways, this study differs from the prior studies in two ways. The first difference is with respect to the angle of approach. Rather than accounting for the dominant institutional influences on the formation of business groups, this research argues that institutional development and business structure developed simultaneously in Korea. I contend that Korean businesses and institutional arrangements developed in parallel and mutually reinforced each other. In Taiwan, however, these parallel relationships are less visible as the KMT regime played dominant role.

A graphical representation of Korean and Taiwanese differences will help elucidate key concepts throughout this thesis.

Diagram I) the “institutional-embeddedness” framework

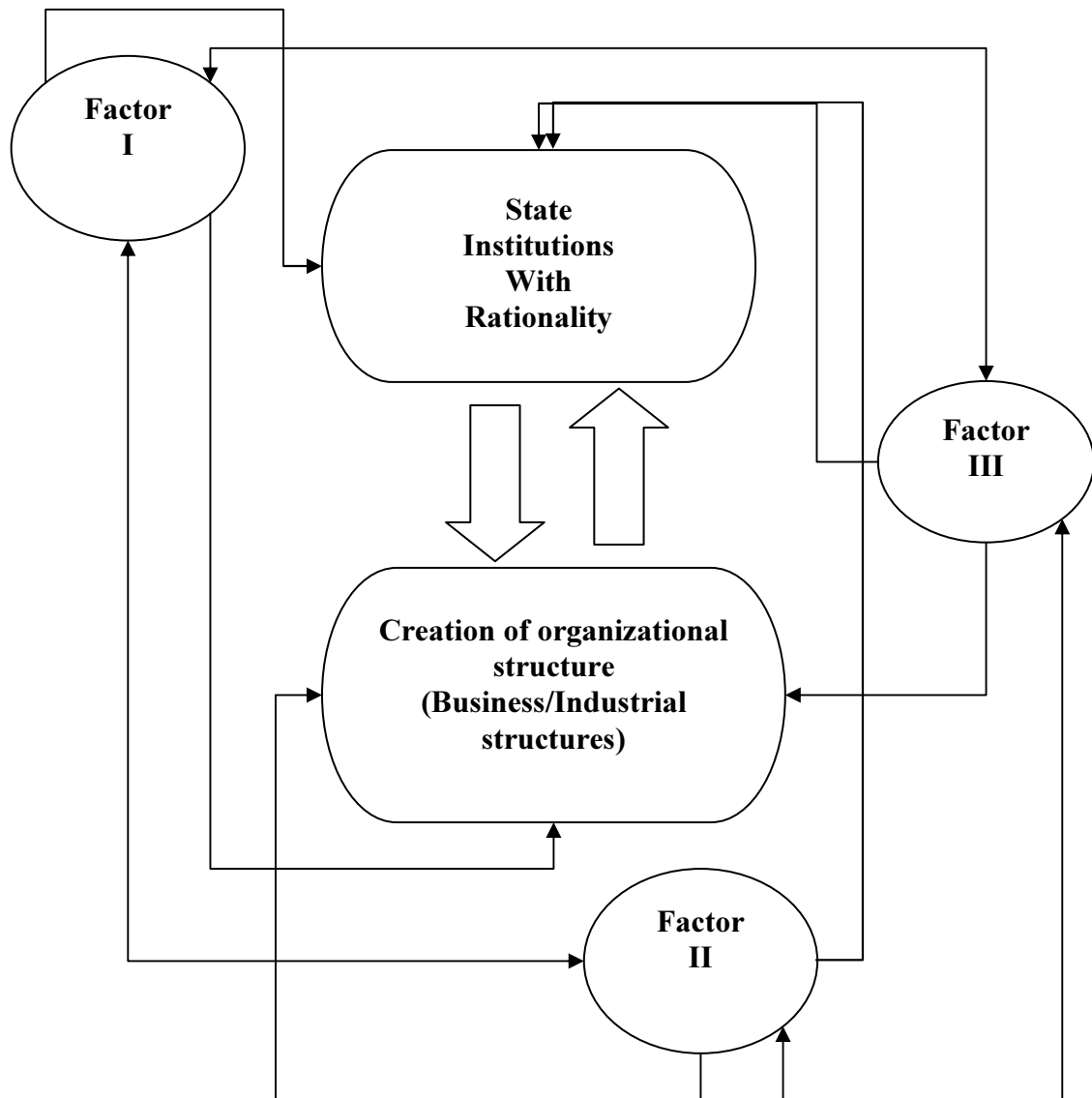


The above diagram depicts cross-national differences in organizational and industrial structural as discussed by scholars within the field of comparative political economy in Korea and Taiwan (Amsden 1989; Chu 1989; Haggard, Kim and Moon 1989; Haggard 1990; Fields 1995; Kim 1991; Kuo 1997 to name a few). Notice the linearity of the approach. The state institution or institutions are shaped by outside influences/factors. These “embedded institutions” then influence the creation of specific business or organizational structures. However, as depicted in the above model, there is no relationship between the business organizations and factors I, II, III. According to this approach, state institutions play a dominant role in organizational formations and creating the organization structures.

The framework is clear and gives insights to a logical progression of how institutional difference affects different industrial structures in Korea and Taiwan. However, by assuming that state institutions are rational and that these institutions will have overwhelming control in policy decisions in the NICs, both the developmental and the NIE theories discount other important factors such as political conditions, historical events and industrial adjustments. Therefore, the NIE largely fails to account the progress of institutional development in Korea and Taiwan which, I argue, is important in understanding why different business structures have become embedded.

This research thesis will argue that the development of business organization in Korea and Taiwan is much more complex than what the above diagram would suggest. The evidence of causal mechanisms is not always clear and often involves multiple layers of factors. In Korea and Taiwan, the factors presented on the diagram often run in parallel as opposed to top to bottom.

Diagram (II): The framework implemented by this study



The above diagram depicts more closely the assimilated process of industrial organization in Korea and Taiwan. In this framework, state institutions are depicted as being influenced by business organizations. The relationship is mutually reinforcing rather than one being dominant over the other. This is because in Korea and Taiwan, the majority of state institutions were created to meet the needs of business organizations

and their respective economic strategies. In addition, factors (I, II, III) have influenced not only state institutions, but also the creation of business structures directly. Thus, the whole process is three-dimensional.

The design of this study will pursue in following format. First, the thesis will examine a ‘political condition’ factor which will explain why Korea and Taiwan has different industrial structure. I argue that weak political support basis for which the Korean governments from the First Republic to the sixth endured led them to form an alliance with only available societal-elites, the Chaebols which in turn enabled the Chaebols to be more embedded into the politics, markets and to society in Korea. On the other hand, such an alliance between the business group and government will be less visible as the KMT governments’ need for the political support was less visible as the regime enjoyed firm political power for four decades from 1949 to 2000.

Then by examining the two micro-level factor of the Civil Wars and the development of semiconductor industry this thesis will explain why such a different business structure has developed in Korea and Taiwan.

Methodology

Empirically, one should be able to observe different patterns of business in similar systems, and similar patterns of business in different systems as Orru (1991) demonstrated in his comparative study of Taiwan and Italy’s small and medium enterprise systems. This study will provide evidence for the former claim- that different patterns of economic structures can be observed in similar systems. This study will employ the comparative historical case study approach, as it is useful in establishing

causal direction and illuminating causal mechanisms by examining historical sequences and intervening causal processes between independent and dependent variables.

Functions of the Variables in this study

Political Support Base (X1)

The first factor, which this thesis will examine, is the political support base in Korea and Taiwan. Here, I will examine the political support base in Korea and Taiwan from the early 1950 and to the late 1980s. This will be measured by looking at the political development of Korea and Taiwan from their liberation to the time of their first democratic election. To be more precise, this section will examine how governments in Korea and Taiwan obtained their political support basis. I argue that in Korea, politically weak governments of the First Republic to the Fifth formed political alliance with entrepreneurs to strengthen their weak political support basis. On the other hand, the strong KMT regime in Taiwan avoided in forming such an alliance with the societal elites to prevent them from challenging KMT rule in Taiwan.

For Korea, I will examine the period from the First Republic to the end of the Fifth Republic (1948 to 1987). I argue that in Korea, the rise and the fall of the political leaderships in Korea until the fifth republic always have suffered from lack in political support base. To overcome such a deficit and to gain political support, the prior governments in Korea have relied heavily on the chaebols to overcome their weak political support base. This is because the societal elites in Korea were entrepreneurs. The state formed an alliance

In Taiwan, one will see less of such political alliance formation. The politics in Taiwan were stronger when compared to Korea. An expressed editorial in the New York Times in February 11, 1985: "...Taiwan is a republic only in name. One family, one party and one cause permeate its politics." Since its retreat from China in 1949, the Kookming Tang (KMT) has continued to exert its aura until the democratization process hit Taiwan Island.

The idea is simple. I will examine how societal elites have been established and embedded into the politics in Korea and for Taiwan, from the late 1940s to the late 1990s. Here, this thesis will examine how chaebols became societal elites in Korea. For Taiwan, I suspect this affiliation with the business elites is less visible as the core KMT political ideology is based on equality and anti-business oriented from Dr. Sun Yet Sun and the KMT regimes' political strategy to prevent political challenges.

The impact of the Korean War and the Chinese Civil War on the distribution of resources (X2)

The impact of the Korean War and the Chinese Civil War will be examined by examining the effects of the two Wars. I argue that the two Civil wars have brought changes to each country in the following ways: (a) the availability of U.S. foreign aids, (b) the distribution of government vested-interests returned to Korea and Taiwan after the Japanese colonialism ended. I argue that in Korea, the U.S. aids and reverted properties helped the Cheabols to expand their business and influences while in Taiwan, such variation is less visible.

Industrial adjustments (X3):

I argue that the different business structures we see in Korea and Taiwan began to take their distinct shape in the mid 1970s. While both Korea and Taiwan has developed an excellent semi-conductor industry there is difference in the outcome.

While both Korea and Taiwan started their semi-conductor industries during the late 1960s (Hong 1997; Matthews and Cho 2002; Chang, Tsai 2000; Matthews J., 1997; Johnston 2000; Wu 2005; Byun 1994; Joo 1992; Wakabayashi and Sumita 1993), Korea sought to develop mass production capability for standardized memory products, DRAM, in particular, and Taiwan sought its own niche market by emphasizing design technologies and Application Specific Integrated Circuit (ASIC) products.

I suspect that such a difference in the manufactured products in the semiconductor industry in Korea and Taiwan indicates a different approach in the development by Korea and Taiwan. While in Korea, the development of semiconductor industry provided another excellent example of Chaebol expansion and industrial concentration, the development of the industry in Taiwan will reveal more industrial diffusion and the growth of SMEs.

Chapter 4: State and the Business structure in Korea and Taiwan

Introduction

The first factor to be addressed is the political condition variable. In this section, this thesis will examine the relationship between the business development and political condition. I argue that the politically weak Korean governments sought alliance with the Chaebols in order to gain political support base by providing incentives to Chaebols in return for their political support. On the other hand, KMT in Taiwan enjoyed strong political power and less constraint by social groups.

The second factor will address the historical variable by looking at how two Civil Wars; the Korean War and the Chinese Civil War brought changes to business growth and structuring in Korea and Taiwan. These variables are examined by looking at two indicators: U.S. foreign aid and the distribution of government-vested properties.

An examination of the two civil wars will help explain significant changes in political economy in Korea and Taiwan. This thesis argues that Korea and Taiwan differed in their management and allocation of foreign aid and government-vested properties, the result being differences in industrial structure

The third factor addressed by this thesis is the industrial adjustment. This variable will be examined by looking at the industrial policy response of Korea and Taiwan in the early 1970s. Preliminary research indicates that during this period, both Korea and Taiwan had launched their industrial adjustment policies. For Korea, it was heavy and chemical industrialization in 1973 and for Taiwan; it was industrial upgrading, mainly in the electronics sector. These policy implementations were Korea and Taiwan's

industrial policy response to mounting external and internal pressures. Korea and Taiwan developed their semi-conductor industries and the purpose of this section is to present an articulate case study accounting for different developmental paths taken by the Korean and Taiwanese semiconductor industries.

It is interesting to study how Korea and Taiwan have differed in their product specialization and industrial structures in the semiconductor industry. I contend that the different business structures seen in Korea and Taiwan result from Korea and Taiwan's different approaches to semiconductor development.

The Political Outlooks: Korea and Taiwan's' Political Condition

Weak versus the Strong: Politics in Korea

The first factor, which this thesis will examine, is the political condition in Korea and Taiwan. Here, I will examine the political support base in Korea and Taiwan from the early 1950 and to the late 1990s and its impact on the business sectors in both countries. This thesis will pay particular attention to explain how different political condition has brought difference in their intuitional development and thus, difference in the business structures in Korea and Taiwan.

The population in Korea witnessed several major crises that seriously weakened the legitimacy of the government from the establishment of the First Republic (1948) to the sixth republic (1987). The first crisis, celebrated as the April 19th student revolution virtually ousted the Liberal Party and brought end to Dr. Syngman Rhee's largely corrupted government. Rhee stepped down on April 26, 1960. The second crisis is the

most widely known one. May 15, 1961, led by general Park Chung Hee quickly overthrew the second republic Yoon Bo sun and took over the government. Third political crisis in Korea happened in December 12, 1979 when major general Chun doo whan arrested the chief of staff general Jung Seung Wha, and overtook the government, which began the fifth republic. Political crisis and the abrupt changes of the governments in the history of Korea politics left the governments with weak political support base.

Politics in Korea, from the establishment of her first Republic in 1948 to the end of sixth republic 1992, were never stable. From 1948 to 1987, Korea experienced seven major catastrophic political crises that resulted in either bloodshed revolutions that led to changes of the government. I argue these political crises were related directly to the problem in Korea; the lack of political support basis. The survey of political conditions in Korea from the first year of liberation (1946) to the end of the Fifth republic (1987) will demonstrate the volatile nature of Korean politics. However, more importantly, the volatile nature of Korean politics will explain why Chaebols become prominent elites from entrepreneurial elites to the societal elites in Korea and thus exerting their influences in politics and economics in South Korea.

Weak versus the Strong: Politics in Taiwan

In Taiwan however, the KMT regime have maintained unchallenged authority for over half century until the victory of Democratic Progressive Party (DPP) candidate Chen Shui-bian in the presidential election in 2000 (Wu 2001). It is well noted in the literatures that the KMT in Taiwan enjoyed substantial political autonomy (Haggard 1990; Heo and Tan 2003; Gold 1952 cited by Haggard 1990 to name a few). Such

political autonomy KMT had enabled Taiwan to carry out wide-ranging reforms and political stability.

This unchallenged political autonomy for KMT also enabled the regime to incorporate important social groups into the party organization; enabled the KMT regime to virtually control and exert [state-craftsmanship] within the Taiwanese society. Haggard (1990) notes few examples of such incorporations: “state-controlled youth corps”, which pre-empted independent student organization; the enforcement of the “state-crafted labour unions” to both the private and public sector enterprises (Haggard 1990, citing Djang 1977). In addition, “Measures of handling of Labor Disputes during the Period of National Mobilization for the Suppression of Rebellion” of 1947 eliminated right to strike against local governments extensive powers in mediation and arbitration (Haggard 1990, p. 81). One more thing which Haggard (1990) notes is the KMT’s unconstrained ties with rural elites; enabled the government to carry out extensive and effective land reforms of 1949-43 (Haggard 1990, p. 81).⁴

Thus, the differences are now clear. The politics in Korea never had such autonomy and control that the KMT in Taiwan had. The ties with social elites in Korea determined the survival of the government while in Taiwan; the KMT was not constrained by such social groups. These two important indicators will serve to explain (in grand scale) the different business structure have evolved in Korea and Taiwan. I argue that in Korea, the weak political autonomy resulted in reliance of the governments on the social elites, the business entrepreneurs and later the Chaebols. While in Taiwan, strong political

⁴ The land reform in South Korea, however was a failure because the First Republic’s political support base came from the rural land owners. To appease them, the government in Korea used resources that were reverted from the former Japanese colonialism to appease rural elites in exchange for carrying the land-reform.

autonomy of KMT regime virtually were able to suppress the business elites to become too big to challenge the authority of the KMT and thus, more diversification in the business sectors were formed, the SMEs.

The following section will provide detailed accounts of Korea (1946 to 1992) and Taiwan's (1949 to 2000) political conditions.

Never a dull moment: the volatile nature of Korean politics

The story begins from August 15th 1945, when Korea gained her longed dream for independence from 36 years of colonialism under Japan. The significant modern political development thus began for the 'Land of the Morning Calm' when in September 1945, an advance party of the American Army, in full battle gear, landed at the western harbour of Inchon, and thus began the inauguration of 'Operation Black List Forty, the United States' occupation of South Korea (Hastings 1988). The occupation of the United States Military Government in Korea (USMGIK) had two major objectives: First, to smooth the transition of the governance from the Japanese occupiers to the people of Korea and secondly, to provide necessary guidance to the first democratic elections in Korea (McCune 1947; Nahm 1988). These two objectives were necessary to Koreans as the sudden withdrawal of the Japanese occupation left people in Korea virtually unprepared although number of politically organized groups survived the harsh Japanese occupation and was making their own preparation for the future of independent Korea.

The first group was an organization of the leading capitalist and elites under Japanese occupation, led by Kim Sung-soo (the owner of Kyungsung textile company and Song

Jin-woo (CEO of the Dong A Ilbo, politician). This dominant right wing party (Korean Democratic Party) was supported largely by landlords, bankers, industrialists and businessmen. The other right wing party was the National Party headed by Ahn Chae-hong. The National Party in its ideology was more moderate than the Korean Democratic Party. In addition, there were two major left wing parties. The two major left wing parties were the Working People's Party of Yo Un-hyoung and Park Hon-young's Korean Communist party, which had a large number of labor and youth organizations affiliated with it (Scalapino and Lee 1972; Cumings 1984).

It was about this time when the USMGIK occupational forces landed in Inchon. Major General R.H. Hodge, the commander of the XXIV Corps was in charge of USMGIK. Hastings (1988) notes "General Hodge and his staff were initially bewildered by the clamour of unknown Koreans competing for their political attention, and the disorders in the provinces which threatened to escalate into serious rioting..." (Hastings 1988, p. 17). These unknown Koreans were the leaders of the five political groups, each claiming their legitimacy to the political power in post-liberation Korea.

However, contrary to their hopes in attaining political attentions from the USMGIK, the newly occupational force chose the Japanese. Despite the huge demonstrations and upsets from the Korean people, the first action of General Hodge was to confirm Japanese colonial officials in their positions, for the time being. Japanese remained the principal language of communication until 1946 (McCune 1947; Nahm 1988).⁵ In addition, it was during this time of government transition when Dr. Syngman Rhee

⁵ In the process, the USMGIK leaned heavily upon the wealthier Koreans and those who could speak English. These comprised mainly of the wealthy elites, trained in the U.S. and civil servants from the former Japanese colonialism.

returned to Korea under the advisement of the USMGIK.⁶ Upon his return, Rhee wasted no time to form the united association of the Nationalist, displaying his talents in politics. Meanwhile, in late November 1945, Kim Ku, president, and Dr. Kim Kyu-shik, vice-president of the Korean Provincial Government in Shang-hai China, returned to Korea. However, Dr. Rhee and he two Kims did not find common grounds which resulted in serious problems within the right wing camp. Later, both Kim ku and Kim kyu shik was assassinated in late 1940s.⁷

Then the birth of the First Republic under Rhee Syngman followed in 1948 with relatively weak political support base. By this time, all those who opposed Rhee were exiled or assassinated, leaving Rhee as the dominant leading figure in Korean politics. Syngman Rhee, then won the presidential election of May 10, with the help from his support groups (entrepreneurial elites) and the USMGIK. However, the public did not view Rhee's government as the right form of government since the U.N. and the USMGIK giving Rhee the upper hand advantage by closely monitored the election. In addition, the result of election did not reflect the popular will as the electorate had twelve of unrepresentative list of candidates to choose from and the twelve of them were unopposed, including Syngman Rhee (Johnston 1948 cited by Weems 1948).

Dr. Rhee Syngman, who portrayed himself as an exiled nationalist during Japanese era, never the less, won the support of the USMGIK and his loyal supporters (most of them the elites from the Japanese era). The National Assembly held its first meeting on May

⁶ Dr. Rhee Syngman returned to his native country as a private citizen. Number of other leading nationalists like Kim koo, the secretary general of the Korean Provincial Government in Shang-hai, Lee Bom suk, chief commander of the Liberation Army were also granted to return but only as a private citizen.

⁷ Also, Yo yun hyung was assassinated. Park hun young was forced to flee to North Korea and never returned. For more information, please consult the followings

31, and Dr. Rhee was elected as its chairman. On June 12, a democratic constitution was adopted, and on June 20, an overwhelming majority elected Dr. Rhee the first president of the Republic of Korea. On August 12, the United States government through the USMGIK stated: “it is the view of the United States government that the Korean government so established its entitled to be regarded as the Government of Korea envisaged by the General Assembly resolution of November 14, 1947,” (USMGIK 1948, 96 cited in Sarafan 1946; McCune; Pak 2000).

The birth of the first Republic in Korea reveals two important things for the purpose of this study. First, in Korea, the government was imposed by the USMGIK. Although Dr. Rhee had skillfully united the Nationalists to front opposition party, and the democratic election took place, all the procedures were under the auspices of the USMGIK.

Second, South Korea never had chances to consolidate her own political agendas. The super-imposed USMGIK were decisive to implement the first democratic election and the creation of the first government, it virtually ignored the interest of the Korean people. The resentment of Korean people was epitomized in an editorial in the conservative Chosun Ilbo on August 31, 1946 (McCune 1947, 16).

When the U.S. occupation force ended the occupation, South Korea was political unstable, socially chaotic, and still economically bankrupt country.

The weak First Republic: managing to create the political supports

As discussed in the prior section, the First Republic was politically weak, facing numerous challenges from the left-wing parties and other nationalists’ fronts like Kim

Ku who mainly opposed the United Nation's plan to divide Korea to North and South and install separate governance.⁸ Challenges from the left wing party were the most radical. On January 24, 1948, an attempt was made by the members of South Korean workers' Party to assassinate Chang T'aek-sang, Director of the Metropolitan Police of Seoul. In February, a Communist-inspired armed uprising occurred in Miryang, South Kyongsang Province, and in early April a large-scale armed rebellion of the Communists occurred on the island of Cheju, causing a large number of casualties and the destruction of more than 12,000 houses.

Within this political turmoil, Rhee became the first elected President of the South Korea on the 15th of August 1948, and his political party Liberal party took the majority seats in the National Assembly. Then, Rhee wasted no time in forming his political support basis largely among the leading entrepreneurs and landlords, giving them unlimited political supports and economic leverages. During the process, however, re-enlisting the former collaborators to the Japanese colonial governments upset the population largely and there were nation-wide protests led mostly by the communists who were mostly went underground by this time. The famous example is Rhee's appointment of Noh Duk Sool, the former Japanese colonial police officer charged with numerous accounts of killing nationalist activists through interrogation. Thus, Dr. Rhee and his government gradually lost more supports from the public and this led to closer ties to the former Japanese collaborators and entrepreneurs to win their support and overcome the weakness in political support.

⁸ An Doo Hee, lieutenant of the Korean Army, later assassinated Kim Ku.

These leading entrepreneurs were leading collaborators of the Japanese colonial period whom were dislike by the general Korean population. However, the group thrived under Rhee's era and many of them later became the Chaebols in Korea later on. For example, the owner of Samsung, Lee Byung Chul⁹ This led to widespread corruption and virtually weakened the legitimacy of the Rhee government. Then, the state, under the leadership of Dr. Rhee and his close collaborators, did worse by allocated the aid entitlements and the reverted Japanese properties in exchange for gaining political support basis. Favored firms, whatever their origins, were allocated hard currency to import scarce materials-grains and fertilizers-that they then resold on the domestic market at monopoly prices. They were given loans at subsidized interest rates. They were granted tax exemptions, and they were awarded preferential contracts for large-scale government projects (Kim, 1976, also cited by Amsden, 1984, 39). The magnitude of fraud is indicated by the size of the loans that the most favored firms received, loans on which they paid neither interest nor principal. A Government Audit Report, prepared in 1961 after the First Republic's fall, suggests that total outstanding loans equaled about \$140 million (or about half of the average yearly grant aid in the 1950s) ¹⁰

Then finally, the people of Korea had enough and by the April 19 1960, the students took their resentment out on the street and the famous April 19th student revolution began which later involved public and leading intellectuals in the South Korea. This wide-ranging revolution led to the end of the First Republic, giving birth to the short-lived Chang-Myun government. By May 1961, the Major General Park Chung Hee had

⁹ Not all the entrepreneurs were former Japanese collaborators. Businessmen like Jung Choo Young and Choi Tae sub did manage to be successful without collaborating with Japanese government. But businessmen like Kim-sung soo and Shin were the leading collaborator, later were charged and lost their assets by Park Chung Hee.

¹⁰ According to the Government Audit Report, quoted in park (1963), total outstanding principal on loans in 1961 was W 48,574,122,000, and interest was W10,271,000,000. Using the real effective exchange rate for 1962 (because the won was devalued twice in 1961), as calculated by Y.C. Park (1985), the interest and principal on these loans in dollars was about \$140 million: Cited in Amsden).

successfully overthrew President Yoon Bo sun and became the unchallenged leader in South Korea for 17 years, giving birth to the Chaebols in Korea.

The Military Rule: 1961-1971

In May 16th 1961, a group of military officers carried out a coup and overthrew the Second Republic. The third Republic (1963-1972) appeared to be strong and deterministic to bring swift reforms, illustrating the governments' strong puritanical and anti-urban tone (Cole and Lyman 1971). After the coup, all political parties, organizations, and unions were banned and the press was subjected to censorship. A revolutionary court was established in July to try those accused of various crimes, including the illicit accumulation of wealth, corruption, and hooliganism.

In addition, Korea saw the creation of a new government agency, the Korean Central Intelligence Agency (KCIA) that began the task of screening 41,000 government employees, of which 1,863 were found to have been involved in corrupts and anti-revolutionary activities (Cole and Lyman 1971). The junta carried out these extreme measures to bring centrality and necessary control in their governance (Amsden 1989; Cole and Lyman 1971; Haggard 1990; Nahm 1988). Despite all these extreme measures and political control, the junta lacked in one thing, which matte the most, the lack of popular support from the public.

Since the revolutionary government came into office without the consent of the people in Korea, it was politically handicapped from the first place. The junta, however, realized such a handicap and made two significant moves to win the support of the domestic and the international opinion. First, to win the domestic support, the junta

arrested thirteen prominent businessmen and an investigation was launched into the activities of another hundred and twenty. The government seized all outstanding shares of commercial bank stocks and gained control of a powerful policy instrument. However, the thirteen prominent businessmen were later all released in return for their pledge of collaboration. On their release, the members of the newly formed Federation of Korean Industries submitted a plan to the Supreme Council identifying fourteen key industrial plants, including cement, steel, and fertilizer, in which they were interested in investing.

Although such move may seem blunt at first place, it was a tactical maneuver catching two rabbits in one move. First, the revolutionary government did gain popular support from the public. Businessmen in Korea at the time were all alleged to have made their fortunes by affiliating with the Japanese occupational government. Thus, the arrest and confiscating their wealth won the popular support from the public since the First Republic never did it.

The real catch however, was from the other one hundred two wealthy elites from the First Republic period. The junta made it clear that these wealthy elites are punished and their wealth confiscated. The prime example was Kim Ji Tae, former CEO of the Chosun textile company and Pusan Daily Newspaper was charged by the revolutionary government of “illegal wealth accumulation” and bailed out by paying 54,570 whan and later in 1962 got charged again (tax-evasion) and was sentenced to 7 years in prison. Thus his assets were reverted to government. With this, the transition from the old elites to a new ones occurred. The transfer from the old commercial capitalist like Kim Ji Tae into manufacturing capitalists occurred smoothly by this action. The government took

assets from the old capitalists by branding them as traitors and gained sufficient revenue to use as police instrument. The junta compromised with large manufacturing and construction firms (Samsung, Hyundai, Korean Glass Manufacturing, L.G. to name a few) and free them. This is because they need cooperation from the new entrepreneurial elites to revive the economy, the primary and the only viable means to win the legitimacy.

The new business organization called for easier access to foreign capital, which demanded government guarantees. This became a central feature of government credit policy over the 1960s and 1970s, and foreign borrowing increased dramatically.

Then, the Third Republic experienced its first political crises in 1964 and 1965, over the ratification of the treaty normalizing diplomatic relations with Japan (Kim 1971). The opposition leaders and student rose up and accused the government of taking a low posture and humiliating stand to the former colonizer. The opposition leaders Yun Po-son, Ho Chong and others formed a pan-national committee to oppose the talk between South Korea and Japan; students in Seoul carried out demonstrations against the government resulted in many arrests and the resignation of Premier Ch'oe Tu'son (Nahm 1988; Kim 1971). Tensions aroused to of bewilderment and student demonstration became wilder and finally, in the evening of June 3, 1964 Marshall Law was declared in Seoul following clashes between thousands of demonstrators and the police (Nahm 1988; Haggard 1990). To meet the problem in hand, the government took remarkable measure and carried out another economic policy reforms. This included devaluation, tax and interest rate reforms, an opening to foreign capital, and the drive to

expand exports, which centered on the mobilization of resources, enabled the Chaebols to expand their businesses (Kim 1971).

The Yushin Regime (1971-1979)

Between 1966 and 1969, annual real growth averaged over 10 percent. Exports were on the rise, and the balance of payments situation improved. International competitiveness in labor-intensive industries, devaluation, the upswing of the world economy, and the Vietnam boom contributed to rapid growth and export expansion (Haggard 1990; Choi 1983; Hong 1979; Cole and Lyman 1971). By the end of the decade, the Korea's economy encountered new difficulties. The GNP growth rate declined from 15 percent in 1969 to 7.9 percent in 1970, and inflation accelerated (Haggard and Moon 1994; Brown 1973, 167; Hong, 1979, 107).

The economic difficulties also exacerbated the regime's political problems. Park's decision to alter the constitution to allow for a third presidential term met wider political opposition in 1969. This undermines Park's already weakened political legitimacy and the dramatic increases gap between riches and the poor contributed to the political crisis (Choi, 1988; Koo 1993). The bias toward heavy and the creation of general trading companies as legal entities produced high level of business concentration. Small and medium sized firms gradually lost their financial independence, either going bankrupt or becoming subcontractors of chaebols (Cole and Lyman 1971; Choi 1988). The government announced three measures to break away from such economic difficulty and gain a new momentum in the economic development phase. First announcement was the 'freeze on private debt'. This measure in 1972 relieved the private sector, especially chaebols, of curb market debts (Choi 1983). The establishment of the

secondary financial institutions in May 29 1973 opened a new area of expansion for Chaebols. In addition, the introduction of the general trading company (GTC) system in the same year allowed Chaebols to secure numerous privileges-guaranteed letters of credit, loosened foreign exchange regulations, and further liberalization of import duties- and ensured the virtual monopoly of the Chaebols in exchange for the strong economic drive and political support.

On top of this, the government announced its wish to expand the industry with the Heavy and Chemical Industry Plan (HCIP) in 1973. The decisive influence favoring the HCIP industry was military as much as economics (Haggard 1990). The American rapprochement with China, Guam Doctrine of the President Nixon, and the defeat of South Vietnam, and by Jimmy Carter's announced intention to withdraw American forces from the peninsula have all contributed in Park's decision to launch self-sufficient economic and military development.¹¹ Direct state ownership was the model in upstream petrochemicals and steel, as it was in Taiwan and the large Latin American NICs (Deyo 1987; Haggard 1990). In the electronics and machinery sectors industrial estates were built to house private-sector ventures (such as Kumi district). Specific projects were negotiated with the large industrial groups, usually acting with minority foreign-equity partners or under license. Protection and fiscal incentives were extended to the new industries.

Thus, the HCIP was an expression of self-reliance and autonomy and Chaebols were fully realized to meet this goal (Woo 1991, 131). This is evident in the move of Korean government by heavily subsidized credit; guaranteed sales through government

¹¹ A recent newspaper reported that Park, during the HCIP, tried to develop a nuclear bomb under secrecy from the United States.

procurement fostered the involvement of chaebols. Thus, by the end of the 1970s, a handful of the largest chaebols became dominant in Korean economy. By year 1978, the total production of the top fifty chaebols accounted 43 percent of the GDP (Woo 1991, 131).

The assassination of the President Park: end of the Third Republic

On October 26, 1979, President Park Chung-hee was assassinated, bringing down the 11 years of governance with him. The assassination, carried out by the President's trusted aids, Kim Jae-kyu, director of Korean Central Intelligence Agency (KCIA). Then, the subsequent government of the Fifth Republic entered the political scene. Led by Major general Chun Doo-whan, also seized the political power through military coup known as the December 12th coup. The authoritarian nature of the political system made it difficult for Chuns' Fifth Republic to distance away from Park Chung-hees' third Republic (Suh 1982). Chun, made reforms and purified the Parks' regime rather than revolutionizing. Thus, the economic policy and industrial planning did not change much and the ties with the Chaebols reinforced. This is reflected in Chun's policy in continuing loan subsidies to Cheabols and often bailing them out when many firms needed help (Graham 2003).

Summary

From its first inception of the First Republic to the end of fifth Republic, the governments in Korea have suffered from many crises. Starting from the First Republic to the end of the fifth Republic, the governments in Korea suffered from the lack in political support basis. To overcome such a deficit, governments in Korea made political alliance with the one social group, the entrepreneurs in Korea. This social

group was influential and capable of delivering what the governments needed. For the First Republic, I argued that the entrepreneurs delivered political support and some economic growth, especially in the period of after war reconstruction.

For the Third Republic, Park Chung hee formed strong alliance with the Chaebols to meet his economic growth plan (the first and second Five-Year Development Plans) which in turn guaranteed the expansion and the growth of Chaebols. The alliance proved particularly useful when the government pursued its HCIP industrialization. With the aid of Chaebols investing in HCIP, Park was able to take off the plan with relatively little political opposition. Chaebols in return received unlimited subsidized loans from the banks, which powered the growth of Chaebols.

By the time when the Fifth Republic came into power, the influence of the Chaebols in Korea's political economy grew stronger. Chun realizing this had no choice but to comply with Chaebols. I argued that Chuns' continuation of the loan subsidies to Chaebols and bailing them out from the debt proves Chun governments' decency in Chaebols. Thus, it is evident that in Korea, the Chaebols grew with Korea's economic drive. Governments from the First Republic to the Fifth Republic depended heavily on the Chaebols to drive the industrialization of Korea.

One Party, One Family: Politics in Taiwan

The Nature of the KMT Government

This section will examine the politics in Taiwan with particular attention paid to explain why the Koumingtan (KMT) regime in Taiwan has retained such a sporadic ties with

the business groups unlike in Korea. In Taiwan, the state always retained superior position against the business groups, able to exert ‘carrots and sticks’ measures to influence the business group much competently than Korea did. This was possible because of Taiwan’s political environment, which for four decades Taiwan’s politic was dominated by Kuomintang with virtually no political opposition until 2000. Taiwan was uniquely different from South Korea and Japan. The KMT was unique in three other respects. KMT posed an anti-business mentality (Haggard 1990; Wu 2005; Gold 1986), was a Leninist/quasi-Leninist party (Wu 2005) by inheriting the Dr. Sun Yet Sun’s three doctrine (Lin 1974; Chou and Nathan 1987; Cheng 1989), and was an economic actor in its own right (Wade 1991; Haggard 1990).

In addition, the unique characteristics of the KMT regime and its vulnerable geographical position pushed political concerns to the top of the state’s agenda. Defense expenditure were geared primarily to the external political goals of the state and, above all, to securing the island against mainland aggression. Domestically, political rather than economic goals were paramount.

As many researchers have pointed out, relations between the state and the private section in Taiwan differed greatly from those in Japan and South Korea (Wade 1991; Amsden 1984; Haggard 1990; Fields 1989, 1990 to name a few). The Taiwan state, for example, distanced itself from business, and there was almost no direct link between the state and the SMEs (Haggard 1990; Wu 2005) as argued in the prior section.

First, I will examine how Taiwan’s post war state building process was different from the Korean experience. I argued, in Korea, governments from the First Republic to the

Fifth Republic (1948-1987) faced lack in political support basis and thus formed the unique business to state relation. In Taiwan, however, such business to state relationship was kept at minimal level and the KMT regime exerted strict control on the business groups to prevent the business groups to expand and challenge the regime stability (Chu 1998).

The Second Chance: Chiang Kai-shek and the KMT in Taiwan

The KMT regime in Taiwan began in 1949 when Chiang Kai-shek retreated to Taiwan Island with his KMT supports and established his dominance over the KMT party through a party reform launched in 1950s (Tien 1989; Jacobs 1978; Haggard 1990). Thus, Chiang and his KMT members were able to establish a one-party political system on the island. Since most of the major KMT factional leaders on the mainland did not flee to Taiwan, there was a sharp decrease in intra-party power struggles, and the KMT was able to reform itself. Chiang Kai-shek dissolved the KMT's Central Executive Committee in 1950 and in its staged set up the Reform Committee.

Not to repeat the same mistakes, from the start, Chiang and KMT began their new political era without any opposition unlike Rhee and his first Republic in Korea. The other thing, which made a difference, is the fact that Chiang and KMT were autonomous both domestically and internationally. Internationally, The Cairo Declaration of the 1943 guaranteed the return of the Taiwan Island to China (Jain 1963). Thus, Chiang and the KMT remained neutral from the international intervention, allowing Taiwan to carry out reforms without losing her autonomy. Domestically, the KMT was also unconstrained by ties with societal elites. The successful land reforms of 1949-53 revealed the capability and the neutral status of the KMT government from the

social groups (Yang 1970). Thus, KMT in Taiwan started post-war era without facing strong opposition at domestic level, or interventions from external actors. The strong KMT determination to exterminate all those who oppose them was exhibited by the February 1947 incident. When the local Taiwanese leaders pushed the provincial government for greater participation in politics and economics, the KMT regime simply crushed the opposition (Haggard 1990 citing Kerr 1965). The other strong determination of the KMT was visible when in 1952, KMT attacked the body of the Provincial Assembly raised objection to the 1952 land reform. The KMT attacked the Provincial Assembly as a tool of the landlords and the assembly simply withdrew their opposition and thus began the swift reform (Haggard 1990).

State's Public Policy toward the Private Sector

The regime's political strategies encouraged the KMT to practice a policy of neither protesting and restricting the Large Enterprise (LEs) while encouraging nor restricting small and the medium enterprise (SMEs). The state fostered a number of LEs through protectionism during the Import Substitution Industrialization (ISI) period (Haggard 1990; Wu 2005; Fields 1995). During the 1950s, by controlling imports and entry into business, providing credit through state-owned banks, and distributing foreign exchange, the state encouraged a number of private firms to become involved in import substitution production.

On the other hand, the state vigilantly monitored and controlled the LEs, largely because native Taiwanese (Wu 2005) owned the majority of the LEs. Wu (2005) argue that the state became increasingly "wary" of the LEs when they first began to develop into business groups by the beginning of 1970s. Therefore, the KMT attempted to restrict the private sector in three ways. First, the state limited the scale of enterprises through laws

and regulations. The Company Act, for example, curbed the size of business operations by regulating reinvestment through equity flows between firms. These laws served to block industrial integration. Second, the export promotion policy was universalistic rather than particularistic. It kept barriers to entry low and made incentives universal. This differed from the situation in South Korea, where the state channeled resources—particularly cheap credit to a few selected conglomerates to make them export champions (Woo 1991; Amsden 1984).

Third, before the 1970s, the state blocked the LEs from expanding their operations to the upstream State Owned Enterprises (SOEs) industries and from participating in certain key sectors such as petrochemical, finance, and infrastructure (Haggard 1990; Wu 2005; Cheng 2001). These restrictions prevented the LEs from becoming vertically integrated conglomerates and affected the size of the business groups.

The state's policy toward SMEs shifted dramatically after the mid-1970s too. This change was triggered by the KMT's legitimacy crisis, demands for political participation following Taiwan's loss of its UN seat, and economic problems caused by the oil crisis, increasing international competition, and the growth in wages (Rubinstein 1999; Chu and Lin 2001; Haggard 1990). To deal with these problems, the KMT regime suddenly discovered the SMEs (Wu 2005). They could further its Taiwanization scheme—the regime's major tactic for thwarting political opposition. Their exports became increasingly significant to the economic growth that the KMT desperately needed as a new source of legitimacy in the wake of a series of diplomatic setbacks. The regime also viewed the SMEs as a significant force in its effort to check the growing influence of the LEs. Chiang Ching-kuo's repeated emphasis on the importance of

promoting SMEs and his call for government officials and public banks to provide assistance to them were not promoted solely by economic considerations (Wu 2005; Jacobs 1979). Politics also motivated the state to move from a policy of benign neglect to one of active encouragement. Consequently, it implemented a series of measures aimed at promoting SMEs.

Industrial policy of KMT

Contrast to South Korea, where the state forged an alliance with the business group (chaebols) to gain its populace and political supports, Taiwan did the opposite. In Taiwan, the KMT vigilantly monitored the Large Enterprises (LEs) to prevent the emergence of political rivals. In addition, most of the important societal elite groups were incorporated into party organizations as mentioned earlier.

All these phenomena had political origins. Political calculations came into play when the state set public policy toward the private sector. The top priority of the KMT was to hold and sustained the political power (Chu 1987; Hong 2001). For the KMT, as an exiled regime that had lost the civil war on mainland China, maintaining power was the first and foremost priority. Thus, the KMT's substantial insecurities about its rule led to restrict the large firms in order to prevent the rise of political rivals.

Although it was economically irrational for the KMT to discourage LE exports, it was politically convenient. The second paradox was a consequence of the same political logic. Because of their size and fragmentation, the SMEs had little political might and presented no threat to KMT rule. Their treatment by the state matched their political and economic status: They neither were protected nor restricted (Wu 2005). These facts

suggest the importance of exploring the political basis for the state's choice of an industrial policy and of examining the role of politics in economic development. Taiwan's economic development cannot be adequately explained without considering the political factors. Therefore, this section addresses the political dimension of Taiwan's development.

Summary

It is evident that the historical interplay between government and business conglomerates (Chaebols) in Korea is different from the Taiwan case. I traced the political conditions of the Korea's First Republic to the Fifth Republic to explain the origins of the Chaebols in Korea and argued that the government and business interplay resulted because the governments attempt to overcome their weak political support basis.

In Taiwan, interplay with business and government is less visible. The analysis illustrate that in Taiwan, the KMT regime remained in strong power for four decades and faced less politically organized opposition. Thus, the KMT regime in Taiwan could exert more strong control and effective policy. I raised two examples to illustrate this point. First was the industrial policy of the KMT regime. I argued that the deep distrust toward the local Taiwanese prevented the KMT regime in Taiwan from forming a closer-tie. The deep distrust toward the local Taiwanese led the KMT government to monitor the Large Enterprises (LEs) to prevent the emergence of political rivals. Second, the political strategy of the KMT regime led the government to exert strong control toward the business sectors. I raised the example of the three policy measures as the example of this.

It became clear that there was difference in the overall political condition between Korea and Taiwan, influencing Korea and Taiwan to take different measures toward the business sector. Because of the political weakness largely derived from the lack in political support basis within domestic, the First Republic and the ruling party (Democratic Party) comprised with the leading social-elite group. This group comprised largely of intellectual and entrepreneurs were former collaborators to the Japanese colonial government. The majority of population viewed this as treacherous act and Rhee's popularity decline since. To overcome such a deficit, Rhee and his administration's dependence on the entrepreneurial elites grew more. I argued this point using the example of how the First Republic acquired its election campaign funds and provided ad-hoc institutional settings to provide advantages to early chaebols in Korea.

The Third Republic, which came to power through the military coup of May 16th 1961, also suffered largely from lack of political support base. To overcome this deficit, the Republic promised to deliver economic growth and the general well-being to the population of Korea. To do so, Park Chung Hee depended heavily on chaebols to meet the goal. The economic institutional arrangements were geared toward to enable the business sectors to expand their operations from import substitution industrialization to the export-oriented industrialization. By providing limitless state-guaranteed loans and credits, Park enabled the Chaebols to grow beyond the Korean boundary and gave Park the legitimate reason to reign over in Korean politics for 13 years until his assassination in 1979.

The Fifth Republic followed similar procedure of the Third Republic and extended its loans and credits to Chaebols. By this time, chaebols grew to be so powerful that the government tried to control them by KAA act. However, as explained, the government largely failed to contro Chaebols. This is evident by the example of continuation of the subsidized loan flows to Cheabols and the government bailing out Cheabols.

For Taiwan, such a weakness in political condition was less visible. Although the KMT regime in Taiwan faced number of crises that challenged the political ability, the KMT government dominated the politics in Taiwan for four decades. During its time, however, KMT did completely the opposite of what the Korea governments did. Rather than making a closer tie with the business group, the government distanced itself from the business sector and imposed strong policy measures to discourage business sectors to form an organized group. This thesis linked the KMTs' stance toward business sector to the following two aspects: KMTs' political ideology and industrial policy.

The findings were as I suspected. The KMT regime in Taiwan by expressing itself as the "sole legitimate government" of China, remained in strong power by countering political opposition as exmplified by the February incident and the strict control the government applied to the business sector.

Overall, the politically weak governments in Korea sought business conglomerates to substantiate their weakness while in Taiwan, such a measure was not necessary as the KMT regime enjoyed strong political power and the government ran their own enterprises and controlled politics as well as economics.

Chapter 5: How Historical events change all

The Korean War

The war did not bring immediate changes to Korea but rather systematic and sustained changes in politics, economics and society. The civil war brought devastation for Korea and from the ashes, the country re-built society. On June 25, 1950, at approximately 4 am on a rainy Sunday morning, the Democratic People's Republic of Korea's (North Korea) Army opened fire on the Republic of Korea (Korea). Tank and infantry attacks along the 38th Parallel followed the opening barrage. At 11:00 am, North Korea announced a formal declaration of war and with this declaration the "Korean War" had officially begun.

To most Koreans, particularly the war generations, the Korean War remains a grievous event. Grief and anger over the loss of family members and forced separations caused by the war still hover over daily life for the war generation.¹² The war resulted in high human causality numbers for the U.N. coalition forces as well.

However, the most important impact of the Korean War is that it reorganized Korea both externally and internally. The War turned Korea's international status from a mere benefactor of U.S. sponsorship from the liberation period to a U.S. sponsorship alliance. Signing of the "mutual defense treaty" (1953) marked a formalization of the alliance that still binds the two countries together up to today. The change of Korea's international status brought exponential increases in U.S. foreign aid. The inflow of U.S. aid was beneficial to Korea in two ways: first, they brought substantial income to

¹² By war generation, I refer to the people in South Korea born prior to 1940.

the devastated Korean economy and enabled Korea's economic rehabilitation. Secondly, Korean cheabols benefited substantially from foreign aid, which allowed them to increase their influence and power.

[Table 3: U.S. Loans to the Republic of Korea from 1946 to 2005]

Program Name	Post-War Relief Period 1946-48	Marshall Plan Period 1949-52	Mutual Security Act Period 1953-61	1962-2001	2002	2003	2004	2005
Economic Assistance (Total)	181.2	485.6	2,579.0	2,861.3	0.3	0.3	0.0	0.4
USAID and Predecessor (Total)	0.0	10.0	2,062.4	1,080.3	0.1	0.0	0.0	0.0
Economic Support Fund/Security Support Assistance	0.0	0.0	1,861.9	501.3	0.0	0.0	0.0	0.0
Development Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Child Survival & Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other USAID Assistance	0.0	10.0	200.5	579.0	0.1	0.1	0.0	0.0
Department of Agriculture (Total)	0.0	0.3	323.8	1,739.5	0.0	0.0	0.0	0.1
Food Aid (Total)	0.0	0.3	313.8	1,739.5	0.0	0.0	0.0	0.0
Military Assistance (Total)	0.0	12.5	1,785.1	7,005.4	0.0	0.0	0.0	0.0
Economic & Military Assistance (Total)	181.2	498.1	4,364.1	9,866.7	0.3	0.3	0.0	0.4

Source: U.S. Agency for International Development (USAID), 1945-September 30,

2006, Greenbook/ Country Report/ Korea

Notice from table 3, the dramatic increase in overall aid once the mutual security treaty was signed. U.S. economic and military assistance doubled upon ratification of the mutual defense treaty. From the period of Marshal Plan (1949-52) to the period of Mutual Security Act (1953-61), U.S. governments' economic assistance extended to more than five times. Economic Assistance in total increased from 485.6 (millions in U.S. dollar) to 2,579.0. In addition, U.S. military assistance increased from 12.5 to 1,785.1. The total economic and military assistance increased from 498.1 million to 4,364.1 million. The U.S. sponsorship continues to play the dominant role until the 2001 as the aggregate sum of total economic and military assistance given to Korea increases up to the year 2001. The evidence in table 3 indicates that during the year of Korean economic development (late 1950s to the late 1980s), the U.S. economic and military assistance played deceive role in the Korean economy.

In comparison to the other countries that received the U.S. economic and military assistance Korea, during the 20-year period after the ratification of the Mutual Defence Treaty, Korea received nearly 8 percent of the U.S. world foreign economic and military assistance. U.S. foreign aid accounted for a total of \$11 billion by 1973, higher than combined aid for the entire African continent (U.S. Agency for International Developments, 1974, U.S. Overseas Loans and Grants and Assistance for International Organization).

The willingness of the U.S. to underwrite the financial requirements of South Korea's subsistence and defense proved crucial in Korea's economic development. The amount of economic aid that Korea received from the U.S. during the period from 1950 to 2001 inclusive was equivalent to nearly 5 percent of South Korea's total gross national

product (GNP) and nearly 10 percent of gross domestic product (GDP). This inflow of U.S. aid has also proved beneficial to growth of chaebols in South Korea. It is evident from a number of studies that chaebols like Lee Byung Chul (the founder of Samsung) and Ku In-hoe (Lucky Gold Star) took advantage of economic and political privilege resulting from US foreign aid in the post-Korean war era (Kong 1991; Lim 1999; Jones 1989). Chung Ju-young (Hyundai) and Cho-Choong hun built their original fortunes from contracts with the U.S. military (Chung 1997).

U.S. aid and the Chaebols in Korea

For the United States, foreign aid to Korea was a means to carry out national foreign policy objectives. These objectives included (1) maintaining national security, (2) humanitarian efforts and (3) achieving national economic benefit. The weight given to these objectives differs for each nation given aid. The national security objective is perhaps clearest for countries like Korea and Taiwan in which the United States has provided assistance designed to enable maintenance of military establishments capable of dealing with foreign aggressors seeking to overthrow the government. For Korea and Taiwan, defense support has been the major category of U.S. economic assistance, but it was also intended that foreign aid would raise both consumption levels and investments thereby contributing further to defense capabilities (Foreign Relation 1964-1968, Vol. XXIX, part 1, Korea).

However, the close examination will show that the U.S. aids to Korea were beneficial to not only the growth of her economy, but also enabled Chaebols growth. The first evidence comes from the biographies by Chaebol CEOs referencing early 1960s to 1980s as the period of unprecedented corporate growth (Lee, 1974; Chung 1997). The

Aids (from 1953 to 61) had provided both material and monetary necessities goods for them to expand their businesses in relatively cheap prices. In addition, the time was right for the entrepreneurs to expand their businesses from the traditional old commercial capitalism into manufacturing capitalism as the reconstruction from the Korean War demanded the production of both consumer commodities and industrial commodities. The government in Korea needed entrepreneurships to rebuild the society and for the entrepreneurs in Korea, this was a golden opportunity. Thus, local firms entered the intermediate and consumer goods sectors, including sectors such as cement and textiles (Haggard and Moon, 1994, p 62). Such an example will be Hyunday opened its cement manufacturing company in Dan Yang, Choong Chung province in 1962 (Chung 1991) and Samsung opening up its Cheil textile company in 1954 (Matthews and Cho 2002; Kong 1991). L.G. concentrated on producing the rubber and plastics goods (Kong 1991) while Choi tae sub of the Korean Glass manufacturing in 1957 (Choi 1995).

The following section will look at how the U.S. economic and military aids have contributed to such cause. I will examine the trade policies of the Korea from Dr. Syngman Rhee era to identify how theses early chaebols acquired their wealth. The section will be divided into following section into two-separate period: (a) from the liberation period to the beginning of the Korean War (1945-1951) and (b) the reconstruction period to the end of the First Republic (1953 to 1960)

The analysis will first start by examining the types and the purpose of the U.S. foreign aids to Korea. This is important because first, the specific types and the purpose of the

U.S. aids indicates the specific policy of the U.S. in Korea and the second, the analysis will explain how the chaebols acquire their wealth.

From the USMGIK to the Korean War (1945-1950)

The primary focus of the United States military government in Korea (USMGIK) was stabilizing the devastated economy and introducing institutional arrangements to bring order to Korea after Korean independence from Japan. To achieve this, the USMGIK offered two types of aid to Korea. The first was “government and relief in occupied area (GARIOA)” and the second was “economic cooperation administration (ECA)”. The objective of GARIOA was to bring stability into Korea by raising the consumption rate. Thus, most of the aids were ‘consumer commodities’ such as food and clothing and agricultural goods to prevent hunger and disease. The objective of ECA was to extend 3 years of investment to Korea.

During Dr. Rhees’ governance, between 1948 and 1953, the consumer commodities aid accounted for three-quarters of all aid, half being agricultural commodities and the rest going primarily to fertilizer and petroleum products. Of the remaining project-related aid, only 16.5 percent went directly to manufacturing. Imported commodities were distributed to local firms for processing and industry. However, during 1948 to 1959, manufacturing scales were limited largely to three areas: textile industry, sugar productions, and flour productions. By 1959 standard, eight manufactures came to dominate domestic textile markets in Korea: T’aech’ang, Keumsong, Taehan, Chonnam, Choson, Kyungban, Tongyang, and Sambo. Some of these textile companies later expanded their businesses and became chaebols. To name a few, Keumsong textiles company later became SSang -Young (SSang-Young literally means Double

dragon in English), T'each'ang textile company later became Lucky, Kyung-nam textile company became Han-il group, Chae-il textile company later became the famous Samsung.

For sugar production and flour production, there was Chae-il, which later became Samsung. (Chae-il had monopolistic control in the production of sugar and flours).

As argued earlier, the aids Korea received during 1948 to 1953 were generally a humanitarian aids concentrated in boosting the domestic economy in Korea by raising the consumption rates. In addition, the strict U.S. control on the use of aid meant that Korea was limited as far as using aid to achieve economic growth. However, few managed to gain wealth from the aid.

Despite restrictions on the use of aid, Korea's chaebols did make a leap forward and expanded its influence by utilizing what was available from the foreign aid. One explanation for this expansion is found in the corrupt political ties between the Rhee administration and business elites during the first Republic. Chaebol success is said to have been primarily the result of corrupt quid pro quo between the state and the political capitalists. Access to foreign aid (or aid financed projects) and vested enterprises (which were typically acquired at below market prices and on extremely favorable terms) was only given to loyal supporters of Dr. Rhee. Those who received such access were in a position to reap huge monopolistic profits and often became overnight business tycoons. The argument above is based on the macro-economic policy explanation. Korean government under Dr. Rhee, in order to maximize the aid inflow, created such policies to lower interest rates, fixing the over-valued exchange rate, and a deficit budget financed by borrowing from the Central Bank. These policy measures produced an

internal gap between government transactions in financial sectors. Such a gap was an external financial gap between import demand and foreign exchange supply, the state, under the leadership of Dr. Rhee, and his close associates then allocated aid entitlements in exchange for political campaign contributions.

During and After the Korean War (1951-1960)

Following the Korean War, the UN Security Council offered Korea additional aid programs, Crisis Relief in Korea (CRIK) from 1950 to 1956, CRIK aid accounted for \$4.9 million US dollars, of which 40% were foodstuffs and 24% were clothing goods (). The first package of aid helped the Republic achieve stability and saved thousands of lives by providing food. However, due to the focus of the aid program there were limited efforts to improve production or enable infrastructure growth.

As illustrated in the table 3, After the Korean War Armistice in 1953, the United States expanded its aids program to Korea. Korea received aid from the following organizations: United Nations Korea Reconstruction Agency (UNKRA), Food and Agricultural Organization (FOA), International Crisis Aid (ICA), and Food for Peace (PL480). The United Nations initiated the UNKRA project amidst of the Korean War and then formalized the enactment by 1953. Approximately 65% of the aid was from the United States. The UNKRA concentrated on war reparation and construction and invested heavily in mining industries. FOA and ICA were similar to UNKRA but were under the control of the Mutual Security Agency (MSA).¹³ With the establishment of MSA, ICA and FOA programs merged and provided 17.5 million in total aid from 1953 to 1961 (of which the United States paid 55.6%). FOA and ICA aid programs were

¹³ MSA was crafted to oversee the enactment of the Mutual Security Treaty of 1953.

semi-military oriented, providing aid in defense expenditures and infrastructure. The purpose differed from more economically focused aid and thus, had only minor affects economic growth. However, during this period too, chaebols managed to increase their expansion and production scales.

This section attempts to provide an additional explanation for how aid affected business structuring, using the micro-level explanations. I argue that the Korean government, under the Rhee administration, sought to implement a government guided developmental policy and employed a growth model in order to create a self-sufficient Korean industry. However, this aim was rejected by the USMGIK, which instead pursued a policy to bring stability first (McCune 1947). However, Korea's persistent efforts to develop its industrial sector is visible in Korean government documents, for example, in the report the Korean government made to the UNKRA on August 1951, the Five Year development plan, and the cabinet council's decision 'Basic Policy in National Economic Reconstruction', were initiated. In July 1954, Korean 5 Year development policy was crafted for Rhee's 1954 state visit to the United State.¹⁴ In these reports, it is evident that Korea was prepared to develop its industries by utilizing measures to deliver needed capital for development.

There were two major institutional measures initiated to meet this purpose. The first was the 'export-import link system trade policy'. This policy started in 1951. The entrepreneurs were given privileges in importing goods by exporting goods like tungsten and ores like iron and copper. Briefly, the government tried to designate the

¹⁴ These reports can be located in Korean National Assembly Library. <http://www.nanet.go.kr>. Since most of the original documents were written in combination of Chinese and Korean character, I got help from my father to translate the work. I would also like to thank my friend in Korea, Seoul who granted me an access through her identification and password.

goods that are imported by linking them to the goods that are exported. The government tried to import the goods that are related to agriculture (such as agricultural chemical, framing tools, petrochemical and fertilizers), finished products (such as vessels and various machinery parts), and raw and semi-manufactured goods (such as fur, fabric, crude rubber). The government tried to expand its basic industry by designating the import goods that were not available through aid commodities. However, entrepreneurs at the time used this system to import popular consumer goods instead and subsequently benefited from their sale with huge profits during the War time.

The other policy was with respect to compensation system trade. The aim was to encourage exports to other parts of Asia excluding Japan by letting entrepreneurs have freedom to import profitable goods to compensate for the export losses. From May 1952 to 1954, increases in import goods accounted for consumer goods like sugar, papers and woolen products that were popular at that time. However, the Republics' aim to develop a self-sufficient industrial sector was not successful except with respect to the expansion of entrepreneurs. It is evident that the first republic used private entrepreneurs to a certain extent to pursue its objective. By doing so, the early chaebols reaped enormous profit, which were then used to expand their own enterprises.

The examination of these two institutional measures revealed three important facts. First, contrary to common beliefs, the aid provided to Korea until the 1960s did not significantly contribute to economic growth. The aid programs however, brought economic stability and large expenditures in the defense sector and the growth of manufacturing capabilities to meet the demand in consumer goods in Korea began. This in turn, brought business opportunities for entrepreneurs and with the risk taking

ventures and leverages from the government, the entrepreneurs in Korea began to expand. Early Cheabols, like Lee Byung Chul (the founder of Samsung) and Ku In-hoe (Lucky Gold Star) admit taking advantage of the economic and political privilege provided by the U.S. aid programmes. For example, Cho Choon hun and Chung Ju-young (Hyundai) built their original fortunes from construction contracts and commodities trading with the U.S. military (Lee 1986; Chung 1997).

Korean War and the distribution of the vested properties

Chung (1989) has noted that the distribution of enemy (Japanese) property gave the state greatest powers of patronage of which the First Republic wasted through poor handling (Chung in Chung and Lee eds. 1989). Under the U.S. Military Government in Korea (USMGIK), the law dealing with reverted interests was passed in 1949, enhancing President Rhees undisputed executive control over methods of interest distribution (歸屬財産處理法, 1949 [Laws of Dealing with Government Vested Properties], article 39).¹⁵ Primary and secondary literature indicates that large business legacies were left after the war in Korea According to Jones and Sakong (1980), the Japanese have left number of important properties for Korea to inherit. These includes Japanese productive machinery (along with an impressive infrastructure of communications and transportations), significant pool of skilled labourers, modern technology and industrial organizations, and lastly, small but growing export-oriented industries (Jones and Sakong 1980, 30)

¹⁵ The vested government interest/properties consists of the properties, enterprises, and interests that were confiscated under the United States Military Government in South Korea right after the liberation of the Korean people in 1947. For more detail, please consider the following publications: Lerory P. Jones and Il Sakong, *Government, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980).

Overall, Korea inherited over 2,500 operating industrial and business enterprises, as well as infrastructures, inventories, real estate and 15 % of the nation's land. The official count was 166,301 items of "vested property" (Jones and Sakong, 1980, p. 30; see also Timothy Lim 1999). Kong's (1990) study suggests that it was during the Korean War that the distribution of reverted properties increased dramatically in Korea. Of the 2,029 vested enterprises sold from 1946 to 1958, less than 7 percent (based on value of Hwan) were disposed of by the end of 1952, by which time the most destructive phase of the war had ended.

[Table 4: Distribution of the vested enterprises in Korea by year, amount and type]

[Unit: contract amount in thousand hwans]		
Year	Number of Cases	Contract Amount
1946	1	n.a
1947	29	n.a
1948	407	12,086
1949	107	1,390
1950	162	74,038
1951	391	593,656
1952	359	860,700
1953	121	3,142,467
1954-55 (a)	233	1,219,071
1955-56 (b)	165	11,530,250
1957	61	4,037,434
1958	23	938,169
Total	2,029	22,409,263

Source: Lim 1999, 607

Notice in table 4 that during the most violent years of the Korean War, a number of vested properties were contracted or distributed publicly. From 1951 to 1952, the total number of distributed vested interests was 391 to 395, respectively. This amounts to an

estimated figure of 36.9 percent of total vested properties distributed.¹⁶ In addition, just one eighteen-month period (July 1955 to December 1956), accounts for over 50 percent of all vested enterprises sold. Table 4 provides an odd account of

The information suggests that it was during the Korean War when the government vested interests were distributed at large. In this respect, a number of questions come to mind. First, what were the criteria for receiving vested enterprises? Second, what were the conditions required for receiving the vested interest? Was it based on purely political considerations, like corrupt relationships between business elites and the Rhee administration, as is generally implied? Were other factors also considered such as managerial expertise or entrepreneurial ability? Third, why were the vested enterprises distributed during War time? Kong's (1991) study, on vested properties and business growth by 23 major South Korean capitalists, provides information to help answer these important questions.

¹⁶ The calculation is based on the figures that were officially published. The original author (Kong Jae-Wook) suspect that there were more vested interests but since it was not recorded officially, the author was limited in estimating the full figure.

[Table 5: Influence of Vested Properties on the Business Growth of 23 Major Capitalists in South Korea (1961 figure)]

Influence of Vested Properties on the Business Growth of 23 Major Capitalists in South Korea (1961 figure)		
Capitalist (Name)	Influence of direct transfer of vested enterprises	Influence of indirect transfer of vested enterprises
Choe Tae Sup	Decisive	None
Cho Sung-chul	None	None
Chun Taek-bo	None	Decisive
Chung Chae-ho	Some	Decisive
Chung Chu-young	Some	Some
Lee Byung Chul	Some	Some
Lee Chung-lim	Decisive	Some
Lee Han-won	Decisive	Some
Lee Yng-Ku	None	Decisive
Lee Young-bum	None	None
Ham Chung-hee	Decisive	None
Kim Chi-tae	Decisive	Some
Kim Chong-hee	Decisive	None
Kim Sung-kon	Decisive	None
Kim Yun-su	None	Some
Kim Yung-chu	Decisive	None
Ku In-hoe	None	None
Nam Kung-ryun	Some	None
Paek Nak-sung	Decisive	None
Pak Du-young	Decisive	None
Pak Hung-sik	Some	Some
So Chung-ik	Decisive	None
Sol Kyung-dong	Decisive	Some

Source: Kong 1993, 217-218; Lim 1999, 609

Kong's study suggests that vested enterprises (in the period before the military coup of 1961) played a decisive role in the growth of 15 of South Korea's 23 largest business groups. Moreover, in only 3 of the 23 cases did vested government enterprises play little or no role (Kong 1993, 217-18).¹⁷ This is a good indicator suggesting that the major chaebols have largely benefited from the distribution of the vested properties.

However, the information provided by Kong (1993) lacks precise statistical figures telling how vested enterprises were used or their productivity levels. Nevertheless, by considering the overall political and economic situation of Korea after the War, it is not difficult to provide a convincing explanation.

The War itself brought destructions to Korean society as did the entire period of the Rhee's administration. The domestic savings rate remained extremely low, as almost all government incomes (most of them from U.S. foreign aid) were spent on consumption. From 1953 to 1962, the gross average savings ratio was only 3.8 percent and with depreciation factored in the savings ratio was even worse. The net national savings ratio was actually negative, at -1.0 percent a year (Economic Planning Board 1963, Economic Survey, 17-18). It is not difficult to extrapolate that the remaining vested enterprises represented one of the few ways for the Korean government to invest in industry (beyond the level of traditional household production). In addition, the vested interests could have been used to subsidize the government's payment to the war effort by selling stakes to entrepreneurs.

¹⁷ However, the original author did not provide clear meaning by 'direct transfer' and 'indirect transfer' in his study. Therefore, I had to second guess. I think what the original author meant by direct transfer means as subsistence of direct capital invested by the government. Indirect transfer I think means the literal way.

Another constructive explanation can be found in the political ties between the Rhee administration and business elites during this era. It is generally assumed that South Korea's most successful entrepreneurs of the Rhee era (1948-1960) were purely political creatures, unable to stand, much less prosper, on their own. Entrepreneurial success is said to have been primarily the result of corrupt quid- pro-quo between the state and the political capitalists, whereby access to vested enterprises (which were typically acquired at below market prices and on extremely favorable terms) was only given to loyal supporters of Rhee. In this view, entrepreneurial and managerial insights count very little as the main criterion for economic success was political loyalty, combined with a willingness to provide kickbacks and bribes to Rhee and members of the ruling party. Many properties were financed with long-term (up to 15 years), low-interest loans (Jones and Sakong 1980; Jones 1980). Given the country's high rate of inflation, however, the real price on many vested enterprises ended up being almost free of charge.

To summarize, entrepreneurs, like Lee Byung Chul, Chung Ju-yung, Chey Chong-hyon, Kim Sung-kon, and Kim Chong-hee, were not passive agents lacking control over the Korea's scarce economic resources. Due to the positions they occupied in the country's socioeconomic system, they were able to direct the flow of resources into their own hands, which, in turn, provided a foundation for their business empires. They did such a good job of exerting control over the allocation of government-vested resources that it took almost no time for this small group of highly capable entrepreneurs to transform themselves from medium-sized businessmen to industrial magnates with increasing control over South Korea's economy.

The Chinese Civil War and Taiwan

When one compares the post-Chinese Civil War experience for Taiwan to that of Korea, a number of similarities are visible. Both countries had fought against a communist regime and the burden of national defence continued upon the cessation of violence. In addition, both Korea and Taiwan were recipients of a large amount of U.S. Foreign Aid. This section will examine the impact of U.S. aid in Taiwan. I contend that U.S. aid had similar impacts in Taiwan's economy and military sectors. In this section I will first examine the kind of aid the U.S. extended to Taiwan as well as institutions created to use and allocate aid inflows. Second, I will examine the impact of foreign aid on the development of business structures in Taiwan to see whether different patterns are visible.

The Evolution of the Nationalist Regime (1945-)

Chinese civil war (April 1927 to May 1950) occurred in mainland China between the Kuomintang (KMT) and the Chinese Communist Party (CCP). The war began in 1927, when the right-wing faction of the KMT purged the communists and left-wing KMT factions within the KMT-CCP alliance. The war went on intermittently until the looming second Sino-Japanese war interrupted it. Full-scale war resumed in 1946 and ended in 1950 with an unofficial cessation of major hostilities and with the communists controlling mainland China (including Hainan Island) and the nationalist retreating to Taiwan. After KMT made their retreat to Taiwan in 1949, the regime faced the urgent task of rebuilding the state against a background of mounting international and internal difficulties. When Chiang Kai-shek retreated from the mainland to Taiwan everyone, including the Truman administration, anticipated that Chiang's days were short (Chu and Li 2001). However, the outbreak of the Korean War on 25th June, 1950 helped

extended the Nationalist government reign in Taiwan for another half century (Cheng 1976 Cummings 1989; Ho 1978, 1975; Wu 2005; Haggard 1990; Chu and Li 2001). The resumption of U.S. military and economic aid helped to stabilize and extend the control of the nationalist government in Taiwan. Beginning in 1950 and continuing until the late 1960s, huge amounts of U.S. aid flowed into Taiwan (Jacoby, 1966; see also Ho, 1984; Chang 1965).

[Table 6: U.S. Economic and Military Assistance to Taiwan (1946-2005)]

Program Name	Post-War Relief Period 1946-48	Marshall Plan Period 1949-52	Mutual Security Act Period 1953-61	1962-01	2002	2003	2004	2005
Economic Assistance (Total)	502.3	467.8	978.8	312.2	0.0	1.6	0.6	1.2
USAID and Predecessor (Total)	0.0	467.4	882.7	69.6	0.0	1.3	0.1	1.2
Economic Support Fund/Security Support Assistance	0.0	178.3	743.5	0.0	0.0	0.0	0.0	0.0
Development Assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2
Child Survival & Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other USAID Assistance	0.0	289.1	139.2	69.6	0.0	1.3	0.1	0.0
Department of Agriculture (Total)	0.0	0.4	96.1	241.7	0.0	0.0	0.0	0.0
Food Aid (Total)	0.0	0.4	96.1	241.7	0.0	0.0	0.0	0.0
Military Assistance (Total)	141.4	275.3	2,060.2	1,891.4	0.0	0.0	0.0	0.0
Economic & Military Assistance (Total)	643.7	743.1	3,039.0	2,203.6	0.1	1.6	0.6	1.2

Source: U.S. Agency for International Development, Greenbook, 1945-September 30, 2006, Country Report/ Taiwan/

As the table 7 indicates, from 1949 to 1967, Taiwan received over \$ 4.1 billion in U.S. aid of which \$2.4 billion was U.S. military assistance. During 1949 to 1967, Taiwan received US\$ 425 for every member of its civilian population and, excluding military assistance, economic aid received per capita was US\$ 187. Cummings (1984) comparing Taiwan to Korea argued, “Since 1945, Taiwan received some \$5.6 million of American military and economic aid, (\$600 per capita in the Korea, \$425 per capita in Taiwan)”. U.S. military deliveries to Korea and Taiwan (1955-78) (that is, excluding the Korean War) totalled \$9.05 billion. All of Latin American and Africa received \$3.2 billions; only Iran received more aid (\$10.01 billion), most of which was received after 1972 (Jacoby 1966 cited by Ho 1978, p. 111). Notice in table 7, however, the amount of Economic Assistance is significantly reduced from the year of 1962 (from 978.8 million to only 312.2 million). In addition, the total Military Assistance also was reduced from 2,060.2 million to 1,891.4 from 1962 and then significantly reduced from the year 2002.

U.S. Aid and business development in Taiwan

Foreign aid allowed Taiwan to better meet its economic and military needs. Aid permitted Taiwan to grow and to remain relatively stable while maintaining an unusually large military establishment. U.S. aid helped to lessen conflicts that existed in Taiwan’s economic development by controlling inflation, relaxing foreign exchange restraints, and permitting a high level of capital formation (Ho 1978,1980,1981,1987; Chang 1965; Amsden 1989; Jacoby 1965; Chen 2000; Haggard 1990; Wu 2005).

From 1951 to 1965, U.S. economic aid to Taiwan totalled \$1.465 billion, an average of \$100 million a year. The aid represented 5 to 10 percent of Taiwan’s GNP per annum during this period. The aid averaged 34 percent of total gross investment and covered

roughly 90 percent of Taiwan's net import surplus of goods and services (Jacoby 1966, p. 53)¹⁸. The fifteen-year U.S. assistance program to Taiwan can be divided into three phases. The first phase was from 1951 to 1956, when most aid consisted of defense support, technical cooperation, and direct forces support. The U.S. agency responsible for the program was the Mutual Security Administration (MSA).¹⁹ Most assistance was given as grants and commodity goods. The second phase was from 1957 to 1960. During this period surplus agricultural commodities and a "Development Loan Fund" were added. The aid was administered by the International Cooperation Administration (ICA) and came in the form of both loans and grants. The third phase was from 1961 to 1966. During this period, development assistance replaced general assistance and loans were the major form of assistance. The program became the responsibility of the Agency for International Development (AID) (Lieu 1978 cited in Wu, 2005, 113).

The aid recipients did not receive U.S. currency but were given commodities and services of an equivalent value. Deposits of New Taiwan dollars were made to a special account in the name of the Government of the Taiwan for use on projects mutually agreed to by the United States and Taiwanese governments. The aid-generated NT dollars were known as the "Counterpart Fund." Between 1951 and 1965, the total in the fund amounted to just under NT\$33 billion, roughly U.S.\$825 million (Wen 1978, 137, cited by Wu, 2005, 113). About 64 percent of the available aid-generated local currency was used for development purposes; the remaining 36 percent was used to support the military budget (Jacoby, 1966, 48 cited by Wu, 2005, 113). Roughly, 80 percent of U.S. economic aid went to the government (90 percent if military assistance is included).

¹⁸ Used standard calculation of GNP. GNP= GDP at factor cost + net property income from abroad.

¹⁹ Similar to the Korean case.

For the Taiwanese government, the enormous amount of U.S. aid was both a vital resource and an important policy instrument (Chang 1965). One main concern was furthering the governments' economic and political goals through the distribution of assistance. The use of U.S. aid was regulated by bilateral agreements between the two governments and by the U.S. law requiring aid to serve American interests. These restrictions might have given Taiwan and its KMT government only limited room to exert discretion (see for example Jacoby 1965; Wu 2005; Chang 1964). However, within its scope of permitted autonomy, the KMT government tried to use the distribution of aid to serve its economic and political goals.

The aid had a strong impact on state autonomy and capacity in Taiwan. On the one hand, it helped strengthen the autonomy of the Taiwanese government by providing huge financial and material support. On the other hand, the aid made Taiwan dependent on the United States, politically, militarily, and economically. The aid simultaneously increased the KMT's internal autonomy and its external dependency (similar situation occurred in Korea.). This paradoxical impact was also reflected in state-private sector relationships. The state was able to influence private sector investment through allocation of aid (contrary to Korea where the state depended on private sectors incomes to subsidize development).

According to Wu (2005), the inflow of U.S. aid influenced the state structure in Taiwan as well. The aid helped increase the authority and power of the KMT regime and contributed to the development of Taiwan's unique industrial structure (Jacoby 1965; Ho 1987). First, it helped to reinforce state own enterprises (SOEs), particularly those in the infrastructure. 85 percent of U.S. assistance went to the public sector which reflects

the common goal of bring stability to Taiwan, held by both the U.S. and Taiwanese governments (Wu 2005 citing Ho 1980, 1987). Aid to the public sector concentrated on infrastructures such as electricity, transportation, telecommunications and tap water, Infrastructure was a focus because it had military significance and because improvements in these areas helped improve the investment climate (Wu 2005; Jacoby 1965; Ho 1978, 1981)

Secondly, Economic assistance also went to some sectors monopolized by the state, such as petroleum, aluminum, sugar refining, fertilizer, and tobacco. The US gave aid in these areas because American technology and capital goods best fit the needs of large-scale producers. Thus, U.S. companies could share monopoly profits through aid-financed procurement, technical cooperation and loans (Wu, 2005, p. 116). Second, U.S. aid helped strengthen state-Large Enterprises (LEs) relations through the allocation of aid. During the 1950s, the state used U.S. aid as rents to foster its chosen winners and supporters, whereas in Korea, winning a favor proved more politically oriented.

It is evident in Taiwan that the state controlled a wide range of resources and used then as policy instruments (Chang 1965). The aim of American assistance to Taiwan during the five years after 1949 was to support the economy and rehabilitate Taiwan from the War damage (Chang 1965). However, the U.S. aid was more geared toward boosting the military infrastructures such as the transport, power and manufacturing capabilities in Taiwan. Thus, state to large enterprise (LE) relations were formed through the allocation of resources in Taiwan. The story however is different in Korea. As I argued earlier, the main difference between Korea and Taiwan is in the entrepreneurial elites. In Taiwan, most of state-owned enterprises were staffed by KMT members or KMT

affiliates as studies of (Chu, 1992; Wu 2005; Hong 2001). In Korea however, the entrepreneurs were freer from the control of the state and thus, were in a position to exert and lobby the government in exchange for the political support. In other words, the KMT regime in Taiwan revealed more technicalities in running its politics and controlled society more efficiently and eloquently. By contrast, in Korea, the first republic proved relatively weak in political and economic matters. Thus, I argue that Korea, although appearing to have strict control had only limited controls over business structure.

Another explanation of why more balanced and equal growth of business structure occurred in Taiwan can be explained by the political ideology it inherited. Although the KMT government had a huge public sector, its anti-big business bias, based on the ideological origin of Sun Yet San's teachings, may have prevent much freedom and power being given to the business sector (Dickson 1993).

To sum up, both Korea and Taiwan became recipients of an enormous amount of U.S. foreign aid, similar in both quantity and quality, because of civil war. However, the use of foreign aid capital and related assistance programs brought Korea and Taiwan very different results.

The Chinese Civil War and the distribution of the vested properties

Similar to Korea, Taiwanese vested enterprises also constituted the primary part of the postwar public sector. Two laws, “Measures for Dealing with the Enemy’s Property in the Recovered Areas” (1945) and “Rules to take over Japanese Property in Taiwan Province” (1946) (Wu 2005) declared that all properties owned by the Japanese colonial government and Japanese firms be reverted to the Chinese government.²⁰

The Takeover Commission, set up under the Taiwanese provincial government on October 25, 1946, had confiscated all properties owned by the Japanese government by the end of 1945. A Council for Japanese Property was established under the commission in January 1946 to deal with privately owned Japanese property. The task was almost complete in early 1947 and as Wu (2005) notes, “by the end of February, 1947, the KMT government had assumed control of 593 units of public property (valued at NT \$2.94 billion), 129 firms (NT \$7.2 billion). All these Japanese holdings were nationalized. Of the 860 industrial firms confiscated prior to 1950, 775 were Japanese-owned (defined as a Japanese share greater than 50 percent), and 85 were Taiwanese-owned. According to the regulations, enterprises with over 50 percent Taiwanese ownership were to be sold to the local shareholders of the enterprise. Of the 775 Japanese enterprises, 376 were sold or were offered unsuccessfully for sale, and the other 399 were nationalized. There were four types of nationalized firms: (a) central government-owned (state-owned), (b) provincial government-owned, (c) joint-ownership by the central and provincial governments and (d) owned by a city or county government (Wu, 2005, 4, citing Ho 1978, Chen 2000, Cummings 1984). The first two

²⁰ Measures for Dealing with the Enemy’s Property in the Recovered Area was promulgated by the Executive Yuan (cabinet) in 1945, and Rules to take over Japanese Property in Taiwan promulgated by the Taiwan provincial government in 1946. During this time, KMT under Chiang Kai-shek was in Mainland China in struggle with the CCP.

types of ownership schemes accounted for the majority cases. Half the firms sold to the private sector were small in scale or were inappropriate for state ownership.

Compared to Korea, Taiwanese policies in the treating of Japanese legacy were more steadfast and in control. Taiwan established strong control over vested government properties while ambiguity in Korean laws and policies did not allow for a higher level of control. Since the KMT central government in Mainland China did not move to Taiwan until 1949, the National Resources Commission (NRC) represented the central government in the appropriation of Japanese property and the running of important sectors. After restructuring, nine firms were city-or county-owned. This arrangement was the result of a compromise between the central government in China and the Taiwanese provincial government (Wu 2005; Ho 1978, 1980, 1981). The central government wanted Taiwan to be a link in a division of labor of the mainland economic system while the Taiwanese provincial government wanted more autonomy. The central government thereafter became a major force in the state-owned sectors affiliated with the Ministry of Economic Affairs (MOEA) (Wu 2005).

[Table 9: List of Publicly Owned Firms by the Japanese Returned to Taiwan after 1947]

List of Publicly Owned Firms Restructured from Former Japanese Firms		
Former Japanese Firms	Ownership	Publicly Owned Firms
Bank of Taiwan, Taiwan Savings Bank, Japan Sanho Bank	Provincial	Bank of Taiwan
Japan Quanye Bank	Provincial	Taiwan Land Bank
Taiwan Commercial and Industry Bank	Provincial	Taiwan First Commercial Bank
Hua-nan Bank	Provincial	Hua-nan Bank
Chang-hua Bank	Provincial	Chang-hua Bank
Industrial Bank	Provincial	Taiwan Co-operative Bank
Life Insurance companies (15)	Provincial	Taiwan Life Insurance, Ltd
Goods insurance companies (13)	Central	Taiwan Goods Insurance, Ltd
Unlimited companies (4)	Central	Taiwan Co-operative Corporative savings Company Ltd.
Petroleum and gas companies (6)	Central	China Petroleum Corporation, Ltd.
Japan Aluminium company	Central	Taiwan Aluminium Corporation
Taiwan Electricity Company	Central	Taiwan Electricity Corporation
Sugar companies (4)	Central	Taiwan Sugar Corporation
Fertilizer companies (4)	Central	Taiwan Fertilizer Corporation
Chemical companies (4)	Central	Taiwan Alkali Corporation
Salt companies (3)	Central	Taiwan Salt Corporation
Shipbuilding companies (3)	Central	Taiwan Shipbuilding Corporation
Iron, machinery, companies (3)	Central	Taiwan Machinery Corporation
Cement companies (11)	Central	Taiwan Cement Corporation
Papermaking companies (7)	Central	Taiwan Paper and Pulp Corporation
Monopoly company (alcohol and cigarette)	Provincial	Taiwan Provincial Monopoly Bureau
Camphor Bureau and company (2)	Provincial	Taiwan Camphor Bureau
Agricultural and Forest Companies (45)	Provincial	Taiwan Agricultural and Forestry Corporation
Industrial companies (163): small companies in textile, glass, mining, chemicals, printing, rubber, construction, etc	Provincial	Taiwan Industrial and Mining Corporation

Source: Wu 2005, 42

Table 9 accounts the list of properties that were returned to Taiwan after 1947. Notice the difference between the properties the ‘central government’ and the ‘provincial-government’ acquired. The central government acquired mostly the major -

-manufacturing companies such as petroleum and gas companies, Japan Aluminum Company, Taiwan Electricity Company, Sugar companies, and fertilizers and chemical companies, and the Cement Company. The provincial government acquired mostly the medium sized industries and Banks such as Bank of Taiwan, Taiwan Saving Bank, Taiwan Commercial and Industrial Banks.

There was some controversy between the NRC and the provincial government led by Chen Yi (1935-1947) as to whether confiscated Japanese firms were to be converted into state-or provincial government-owned firms (Wu, 2005, 43). As a compromise, the NRC agreed to limit its activities to ten sectors: it enjoyed monopolies in the aluminum, iron and steel, and petroleum industries. Together with the provincial government, it ran the sugar, electricity, fertilizer, paper, cement, shipbuilding, and machinery sectors, holding a 60 percent share in each. There were 22 firms in the three state-owned sectors and 43 firms in the seven jointly owned sectors. Another 306 firms were owned by the provincial government: mining, agriculture and forestry, shipping, insurance, construction, and finance.

A look at the history of Japan's legacy in Taiwan reveals several ways in which Korea and Taiwan differ. Unlike in Korea, the KMT government had full control over all the properties and interests it inherited and devised articulate laws to deal with these properties and allocate the resource equally to its industrial sectors. Korea, on the other hand, was limited in its handling of assets.²¹ Table 9 reaffirms this point. The central government acquired and controlled most of the core manufacturing companies while

²¹ Korea at the time was under the USMGIK's influence and was limited in its own affairs in distribution of the assets. The way the laws in dealing with the government vested property got changed so many times, it was hardly ever put into practice. For more details on this consider the following literatures:

the provincial government got most of the financial sectors. This firm control of by the KMT was possible because unlike Korea, the KMT regime had relative autonomy in acquiring and distributing the former Japanese property. Whereas in Korea, the take over commission was under the influence of USMGIK and the first Republic left with no choice to comply with the decisions of the USMGIK in handling such enterprises.

In addition, the way vested properties distributed in Korea was different to that of Taiwan. In Korea, under the USMGIK, the first Republic had to privatize what was reverted to the government (Lim 1999; Kong 1993). Often, the sales of the reverted properties were lower than market prices and were used as an advantage to the landlords when Korea underwent the land reform (Lim 1999; Kong 1993; McCure 1947). The properties sold to landlords than were re-purchased by the entrepreneurs in Korea (Kong 1993). Taiwan on the other hand, remained autonomous and the KMT regime in China took complete control of the property.

Conclusion

Two civil Wars were another additional factor which explained why Korea and Taiwan did develop the different business structure. This thesis examined the two factors of U.S. foreign aid and the distribution of the properties reverted from Japanese colonialism. Both occurred from the post World War II period and accelerated by the Civil Wars. For Korea, inflow of the U.S. assistance started from the USMGIK and then increased rapidly after the Korean War. With this inflow of aid, Korea was able to recover from the war damages. The process of distribution of the reverted proprieties started under the USMGIK guidance too. I argued that these properties distributed to the elites and entrepreneurs for two things: repayment to the landlords as compensation and

to early entrepreneurs as government subsidies to win their support during the War time. Most of them were selling over to the private market at below market price (Lyons, 91; Jones and Sakong , 270-74; Kim 1976, 465-71; Haggard, Moon, and Kim 1991)

For Taiwan, during the period between October 1945 and February 1947, KMT took over industries which formerly belonged to the Taiwan Governor, and confiscated private properties of Japanese, which was worth 11 billion Taiwan dollars. Then, the KMT government took over another 860 Japanese-owned or joint ventures from March 1947 to December 1950. Some were sold to private owners but most were turned into state enterprises, and formed the basis of the state enterprises in the Taiwan.

The next section will examine the development of the semi-conductor industries in Korea and Taiwan from the late 1960s to early 1980s. I argue that examining the development of semi-conductor industry in Korea and Taiwan will explain the two things. First, the reason why Samsung, Hyundai and L.G. became the top three chaebols out from the 23 other chaebols in Korea. Second, examining how semiconductor industry developed in Taiwan will explain why SMEs have thrived in Taiwan.

Chapter 6: Industrial adjustments: The Semiconductor industry in Korea and

Taiwan

[The] capitalist economy is not and cannot be stationary. Nor is it merely expanding in a steady manner. It is incessantly being revolutionized from within by new enterprises, such as by the intrusion of new commodities or new methods of production or the opening up of new commercial opportunities...

(Schumpeter 1942, 50)

Introduction

After the short period of import substitution industrialization, supported by U.S. economic and military aid, both Korea and Taiwan were able to take advantage of the liberal economic order provided by U.S. hegemonic power. To varying degrees, both countries have enjoyed geopolitical advantages caused by U.S. containment policy during the Cold War. However, economic growth based upon aggressive exports may have shaped the two countries to be more sensitive to changes in the international political economy and thus, the different path of industrial structure began to form its shape.

Beginning as early as the 1970s, Taiwan and Korea became major targets of U.S. Neo--protectionist policies. These policies were further exacerbated by the open and fair trade pressures of the 1980s. (For information on various types of American trade pressure influencing Korea and Taiwan, see Yoffie, 1983; Chan 1987). This section will discuss how Korea and Taiwan reacted to such international pressures as well as mounting domestic pressures by making industrial adjustments and developing their semiconductor industry. I argue that the different business structures we see in Korea and Taiwan began in the mid 1970s and the semiconductor industry proves to be a

useful tool in measuring the departing nature of industrial structure in Korea and Taiwan.

Prior researches in the semiconductor industrial developments suggest the two things: (a) Both Korea and Taiwan have developed an excellent semi-conductor industry. Korea sought to develop mass production capability of standardized memory products, DRAM in particular while Taiwan sought its own niche markets by emphasizing design technologies and Application Specific Integrated Circuit (ASIC) products. (b) Korea and Taiwan have differed in their approaches in developing their semi-conductor industries (Matthews and Cho 2002; Cheng 2001; Hong 1997; Wu 2005; Cho, Kim, Rhee 1998; Suraze-Villa and Han 1998; Byun 1994; Bailey, Zitzewitz, Bostwith, Westphal 1998; Brown and Linden 2006; Ranis 2000,).

Based on prior researches, this thesis will trace the developmental history of the semiconductor industries in Korea and Taiwan to find the relationship between the semiconductor development and business structural difference in two countries. I argue that in Korea, the growth of semiconductor industry reinforced the Chaebol domination. From the point where Samsung and Hyundai developed their first semiconductors, the influence of government became less evident. In Taiwan, however, the growth of semiconductor industry was virtually led by the government. From the start of its industries to the creation of the first semi-conductor product, the government got involved in every step, thus creating the diffused industrial structures.

More interestingly, the government policy toward SMEs from the mid-1970s, (Wu 2005) coincides with the policy of emphasizing the export market to sell the

semiconductor products as these were the times when the KMT government in Taiwan began by lowering entry barriers across industries (Wu 2005, p. 286).

I argue that the changes in international political economy have shifted the focus of industrial strategies in Korea and Taiwan. In Korea, established entrepreneurs initiated a shift in industrial strategy and initiated the semiconductor industrialization while in Taiwan, motivation came from the state. The case study of the development of the semiconductor industry in Korea and Taiwan will illustrate how these same responses yield different industrial structures in Korea and Taiwan.

Development paths in the semiconductor industry: South Korea

In February 1983, Korea's most famous businessmen, Lee Byung-chul, the founder and chairman of Samsung, in a famous statement, said that "Samsung intended to become a world player in memory chip production" (Byun 1994, 706). He was prepared to invest up to 100 billion won (\$1.33 million in U.S) to back this assertion. Less than two years later, Samsung shocked the world with its 64K DRAM, produced at its gleaming new wafer-fabrication plant at Kiheung. Within two years, it was making profits from the 256K DRAM. Samsung had emerged as the world's number one producer of DRAM, generating enormous wealth for itself and Korea. Lees's fellow chaebol chairmen were quick to follow. In April 1983, barely a month after Lee's announcement, Chung Chu-young, chairman of Hyundai, made a similar commitment on behalf of his company.

The story of Korea's entry into high-technology industries like semiconductors is one of fervent entrepreneurs taking extraordinary risks and countless engineers making efforts beyond what is required. However, the real story lies with the government and its institutions which also played a role, but minor. The root of Korea's success in

semiconductors (and thus, the growth of Chaebols) goes back many years to earlier preparatory phases of developing its knowledge –intensive industries. Although the Korean semiconductor phenomenon took off in the mid-1980s and achieve world-class status in the 1990s, its roots can be traced back to the 1960 and 1970s. In the 1960s, the Korean government opened up its market to the world by pursuing an export-led growth strategy and in the 1970s, leading Chaebols established their electronics businesses.

The development phases

The first phase (1965-72) is characterized by an influx of foreign investments for the semiconductor assembly and packaging industry. The development of Korean semiconductor industry was favored by the rapid diffusion of the production technology from advanced countries, especially in the United States. The segmentation of the production line meant that manufacturers could set up their assembly factories in less developed countries and thus gain an advantage from the cheap labor costs while more technological intensive sector remaining in the head-quarter. Korean chaebols like Lee byung Chul of the Samsung and Chung Joo young of the Hyundai saw this opportunity and ventured in the process of setting up the assembly line in Korea (Suarez-Villa and Han 1990; Matthew and Cho 2002).

The state in this period devised many plans to attract foreign investment and promoted electronics exports. Thus, the Korea's semiconductor industry began with U.S. companies like Fairchild, Signetics, and Motorola setting up assembly lines. Feeling the first waves of competitive pressure from Japan, these companies were looking to invest in low-cost assembly operations abroad, initially in Hong Kong, and then in Taiwan and Korea. Fairchild had invested in such facilities in Hong Kong in 1963, and

it was interested in establishing similar operations in Korea and Taiwan. A small American company, Komi, which invested in transistor/diode production facilities in Korea in 1965, provided the founding date for the country's semiconductor industry. Companies such as Komi not only provided investment money but also technologies.

From 1970s, as the electronics industries grew rapidly, the Korean business sector realized the limits of assembly lines operation. In order to make more profit, entrepreneurs in Korea began, from 1974 onward, investing in the semi-conduction industry. Korea's leading enterprises, like Samsung, began acquiring semiconductor companies like Korean-semiconductor and the Korean branch of Fairchild. Samsung, with imported production equipment from the U.S., began to make huge investments in the industry. By 1978, Samsung had successfully acquired all the necessary equipment for the production of wafer-fabrication DRAMs. Meanwhile, Kum Sung (old name for L.G. electronics) also took over Korean-semiconductor and collaborated with AT&T to form production factories in Korea. The other chaebols like Hyundai, made little or no effort in investing at this stage.

The government's role

With these investments of Chaebols, the government of Korea started to devise an electronics development plan under the 5 year economic development plan. Thus, while other parts of the plan were initiated and govern by the government, the electronics sector was spearheaded by the Chaebols. The policy objective from the government was to provide necessary assistance to private research and developments (R&D) and assist in the development of the semiconductor industry by providing government credits and unlimited access to the loans. However, most of the R&D was carried out by private

enterprises through Samsung, L.G. and Hyundai, illustrating their competency and risk taking measures, while the government assisted by providing low interest rate loans and operations of some state-run R & D facilities.

In particular, the Korean government relaxed its controls over foreign investment from 1965 onwards by introducing the ‘Foreign Capital Inducement Law’ (1965) (Hong 1997). The US government also provided incentives in the form of exemption from US tariffs for goods assembled abroad. Further, the U.S. provided encouragement for local investment in Korea in recognition of military assistance rendered in Vietnam. In short, the environment was excellent for the development of the semiconductor industry.

After relations between Korea and Japan were “normalized” in the mid 1960s, Japanese electronics MNC also established assembly and test facilities in Korea, starting with Toshiba and Sanyo in 1969. By 1973, there were at least seven Japanese facilities, operated by such firms as Toko, Rohm and Sanken. The Toshiba investment was critical, being the first between Japan and Korea post-occupation. Initial discussions to establish a germanium transistor plant had been aborted in 1967 (germanium was becoming an obsolete technology), but a joint venture to establish a silicon transistor plant in 1969 bore fruit. The plant was established at Kumi, then a farming area – but it was rapidly provided with all essential infrastructures under personal orders from the President. Kumi was the base for Korea’s rapid expansion of the semiconductor industry.

The Korean government favoured these multinational investments because of the contribution made by exported chips to foreign exchange earnings. These earnings

could then be ploughed back into further employment, contributing to a labour-intensive phase of industrialization. The primary goal of the sectoral plan was accomplished by 1978 as domestication of semiconductor manufacturing was achieved. The plan aimed to develop 41 components and 16 finished products in electronics. Among them, 9 items were related to wafer fabrication and computers (Matthew and Cho 2002; Hong 1997). The government planned to invest \$150 million in facilities and \$58 million in R&D. The Kumi Industrial Complex was to be expanded in order to invite private participation (Kim, Lee, J.J. Lee 1987; Park, Kim, Joo, and Yoon 1987).

Organizational changes within the Korean government were initiated in order to meet these goals. An electronics industry division was created within the MTI in 1973, which was formerly a subdivision under the electrical industry division. In 1977, the electronics industry division expanded into three divisions (electronic components, home appliance, and industrial equipment) and was located under the newly created Precession Machinery Industry Bureau. In 1978 the Electrical and Electronics Industry Bureau was created within the MTI, and the three divisions related to the electronics industry were relocated under this new bureau. Later in 1983, the Industrial Equipment Division was renamed as the Electronics Policy Division and the Information Industry Division was created. Since then, the Electrical and Electronics Industry Bureau has become the core agency in industrial policy-making for the electronics and semiconductor industries. In December 1991, the Electronic Components Division was renamed as the Semiconductor Industry Division which illustrated the increasing importance of semiconductors in the Korean economy.

The MTI also tried to form a unified industry association in order to have more effective responses from the private sector. Responding to this state initiative, private manufacturers formed the Electronics Industry Association of Korea (EIAK) in 1976 by consolidating the two existing electronics industry associations, the Korean Electronics Industry Cooperatives and the Electronics Industry Export Cooperatives. In 1979 the EIAK absorbed the industry promotion function of the Fine Instrument Center, and in 1980, it absorbed the import recommendation function of the Electric Products Manufacturers Association. As a result, the EIAK became a powerful industry association for the electronics industry in Korea (Suarez-Villa, Han 1990, 276-277; EIAK 1989).

The government in this period also pursued various research projects through state-run research institutes. In 1975 semiconductor technology was selected as a top priority research project of the KIST. In 1976 the Korea Institute of Electronics Technology (KIET) was created in the Kumi Industrial Complex under the joint sponsorship of the state and the private sector. The primary goal of the KIET was to support R&D in high-tech areas. With loans from the IBRD, the KIET pursued utility projects within the industrial complex as well as various research projects for the private sector. Under the state integration policy on research institutes, the electronic technology research function of the KIET was absorbed by the newly created Electronic Technology Research Institute (ETRI) in 1981. The ETRI absorbed the Communication Technology Research Institute in 1985 (EIAK 1989, 143-5). However, the role of state-operated R&D facility was minimal compare to the private R&D facilities that Samsung, Hyundai and L.G. operated. So the role of the government remained at continuing its financial support for electronics manufacturers as a part of the heavy and chemical

industrialization program. In addition to tax reduction and tariff deduction, special purpose loans (policy loans) were available to semiconductor manufacturers such as the NIF loans and long-term credits from the Korean Development Bank (KDB).

Summary

The developmental processes of the semiconductor industry in Korea have been very much dependent on the entrepreneurs. The path for the development of a semiconductor industry can be credited to high risk-taking entrepreneurship. Overall, it is evident that the semiconductor industry allowed few Chaebols like Samsung, Hyundai and L.G. gained more control and power over the government in certain industrial sectors. With the amount of revenue and employment opportunities the Chaebols bring, the government simply had to aid them by go along with what the Chaebols and setting up the institutions to aid them.

In addition, the development of the semi-conductor industry proves that the statist and developmental theory are wrong in assuming that the Korean government played leading role in industrialization in Korea. Certain sectors like electronics industry was initiated and led by Chaebols in Korea. The government simply assisted the development by providing credit-loans and complying with the demands of Chaebols.

The next section will look at Taiwan's development of semiconductor industry.

Development paths in the semiconductor industry: Taiwan

Introduction

In the early 1970s, the world economy, including the export-dependent Taiwanese economy, went into a serious recession (Jeon 1994). Oil prices had increased exponentially because of the first Oil Shock in the fall of 1973. To make things worse, most advanced industrial countries began to suffer from stagflation (Barsky and Kilian 2001). In the midst of these economic difficulties, Taiwan's major export items such as textiles and footwear began to lose international competitiveness due to emerging competition from less developed countries. Furthermore, neo-protectionist policy measures adopted by advanced industrial countries also contributed to reduced demand for Taiwanese exports.

It was in the middle of this economic recession that some Taiwanese high-ranking public officials began to think about industrial upgrading (Mathews and Cho 2002; Meaney 1994; Hong 1997). The electronics industry, including semiconductors, was selected as one of the strategic sectors to be promoted for future industrial adjustment. Unlike in Korea, where Chaebols took the opportunity to expand their business by investing heavily in the semi-conductor, SMEs industries in Taiwan were utilized by the KMT government to further expand the industry. Then later when

The early 1970s also was the time when Taiwan's relative position in international relations deteriorated due to the dramatic normalization treaty between the US and China. Taiwan's competitive edge in labor-intensive industries was challenged by growing competition from other developing countries. In an effort to adjust to the

changing economic and political environments both domestically and abroad, the semiconductor industry was selected as a strategic sector to be developed by the KMT government in Taiwan along with several other industries described above.

However, the semiconductor industry required enormous financial resources just to start, and a continued commitment of large investments for R&D and facilities. The extremely short life cycles of semiconductor devices (about three to four years) creates a very high entrance barrier to small firms unless they have extraordinarily sophisticated technologies. Taiwan in the early 1970s, however, did not possess enough technical sophistication to launch an independent semiconductor industry. When its first semiconductor project started around 1974, the founding fathers (Dr. Yun-hsuan Sun, the Minister of Economic Affairs and Dr. Wen-yuan Pan who organized the TAC in the US, just to name a few), of the industry were fully aware that there was no alternative but for the state to pursue this project because of the limited size of private firms and their low technology level (Matthews and Cho 2002; Chang and Tsai 2006).

Development phases

Meaney (1994) divides the development of Taiwan's semiconductor industry into four different phases according to major projects and achievements (Meaney 1994,). The phases are: (1) the creation of the Industrial Technology Research Institute (ITRI) and the Electronic Research Service Organization (ERSO) under the MOEA (1974-78). (2) The creation of the United Microelectronics Company (UMC), the Science and Technology Advisory Group (STAG), and the Hsinchu Science-Based Industrial Park (HSIP) (1979-83). (3) The adoption of the Very Large Scale Integrated Circuit Company (VLSI) project and the formation of the Taiwanese Semiconductor

Manufacturing Company (TSMC) (1984-89). (4) the adoption of the submicron project and the growth of private firms (1990-present), (Meaney 1994).

These four different phases illustrate a well-planned and highly developed network of institutions for collaborations (IFCs) in Taiwan. In addition, the big universities that are located in key industrial areas, for instance, Tsing-Hua National University and Chiao Tung National University located at the Hsinchu Science Park, and state-sponsored research institutes that play key roles in the economy, most notably is the ITRI (Ranis 2002; Wang 1995). The state created integrated institutions to develop the semiconductor industry and the Taiwanese firms benefited from it.

Taiwan's semiconductor industry has transitioned through three main stages of growth. The preparatory stage started in the 1960s when Taiwan positioned its economy for export-led growth mainly through small and medium private firms involved in contract manufacturing relations with U.S. and European manufacturing firms. Through the establishment of an export-processing zone in 1965, Taiwan attracted contracts from U.S. electronics and semiconductor firms seeking to invest in low-cost manufacturing in Asia as the worldwide Integrated Circuit (IC) market sales increased. In 1966, U.S. based General Instrument Microelectronics established a semiconductor packaging business in Taiwan and became the first semiconductor company in Taiwan (Chang and Tsai 2000).

By the 1970s, Taiwan was successful at transferring global technologies into capabilities in its semiconductor industry. The ITRI played significant roles in technology developments. The ERSO was subsequently formed out of the ITRI and

charged by the government to promote technology transfer from the world's best to Taiwan. Then the Taiwanese government quickly responded to this move by establishing Export Processing Zones (EPZ), and as a result, several US semiconductor firms entered into Taiwan (Hong 1997).

By 1981, competitiveness in the semiconductor industry greatly increased along with a rise in prominence of the industry at the global level. An increased partnership between government and industry increased the role of private firms in the industry. By 1995 the industry had developed fully with over 180 firms and had a large share of the world market (Johnston 2000; Matthews 1997).

The semiconductor industry requires enormous investments for R&D and facilities as well as a large skilled work force. Due to the enormous start-up costs and long-term view on profits, no private firm in Taiwan was willing to invest in the semiconductor business until 1988. Therefore, the Taiwanese state had to assume a dominant and pervasive role as both planner and producer. The Taiwan state has been the major source of R&D investments, marketing channels, and work force training. Until recently, all major R&D projects for the semiconductor industry have been planned and administered by the state through ITRI/ERSO and other related state agencies (). The private sector began their major investments after the 1988-89 periods, but most private investments have been devoted to the expansion of facilities.

How Semiconductor industry expanded the SMEs

The first interaction between the state and the private sector occurred when the issue of forming the United Microelectronics Company (UMC) became an utmost concern to

those who pushed for the semiconductor project (Mathews and Cho 2000). The decision to create a public-private joint venture was clearly caused by the presence of small and medium business structure, where individual firms could not readily overcome the high entrance barriers of the industry

The ITRI and the ERSO emphasized developing design technologies that would be appropriate to small businesses. They provided various manpower training programs for the employees of private firms. Later, many of those who were trained at the (ITRI) and (ERSO) opened their own businesses, mostly small independent design houses in the HSIP, which was established in 1980 (Hong 1997 Jonston 2000; Matthew 1997). Due to the growing number of design houses, the high-tech circle in Taiwan decided to create another joint venture, called the TSMC, as a pure foundry, which became the biggest semiconductor fabricating company in Taiwan as of 1993. Interestingly enough, no local Taiwanese capitalists were willing to participate in the TSMC project despite the impressive success of the UMC business. This clearly shows constraints imposed upon the state and the private sector by the small and medium-size business structure in Taiwan.

In addition to the two joint ventures, the UMC and TSMC, the state helped to induce private (SMEs) participation in the semiconductor industry through a number of channels. For example, ten wafer fabricating firms operating as of 1993 are linked to the ITRI and ERSO in one way or another. As explained earlier, the TSMC and the UMC were directly created by the state by spinning off a part of ERSO's research and marketing teams. The former created all other local Taiwanese firms such as Winbond, HMC, Holtek, ADT, and AMPi. Employees of the ITRI and ERSO and their

technologies were directly provided by ERSO. The only exceptions are the firms that were born through foreign direct investments; either wholly owned by foreign companies (Macronix) or a foreign-local joint venture (TI-Acer).

Conclusion

The development of the semiconductor industry was another factor this thesis has examined. It is noted that both Korea and Taiwan initiated developing the semiconductor industrialization within similar time and under similar setting. However, there are two noticeable differences in their semi-conductor development. First is the products they manufacture. Korea sought to develop mass production capability of standardized memory products, DRAM in particular while Taiwan sought its own niche markets by emphasizing design technologies and Application Specific Integrated Circuit (ASIC) products. Second is the difference in their approaches of the industrialization. Then, this thesis traced the overall developmental history of the semi-conductor industry in Korea and Taiwan and found two important distinctions. First difference lies in the approach in Korea and Taiwan's developmental strategy. In Korea, semiconductor industry was initiated and started by few cheabols who can manage in bring the foreign investments. Samsung started this process first then Hyundai, L.G. followed the Samsung in developing the industry. The government also played their part by pouring subsidized loans and creating special industrial zone like Kumi to bring more foreign direct investments and creating state-run R&D institutions like KAIST. Overall, the development of the industry initiated largely by the few chaebols in Korea. This exacerbated the industrial concentration in Korea as the only few business conglomerates were capable to develop this high-tech industry and reaped huge profits which reinforced the growth of chaaeobls.

In Taiwan, the story of semi-conductor industry begins at the state-level. Contrast to Korea, it was the government initiating and created the industry. The semiconductor industry was one of the strategic sectors to be promoted for future industrial adjustment. Unlike in Korea where Chaebols took the opportunity and expanded their business, Taiwan had well-planned and integrated institutions to develop the semiconductor industry from the beginning. The decision to create a public-private joint venture was clearly caused by the presence of small and medium business structure, where individual firms could not readily overcome the high entrance of the industry. Facing these obstacles, the government initiated state-private joint ventures by forming the United Microelectronics Company.

Decision to create a public-private be seen by the following measures. The ITRI and ERSO emphasis in developing design-technologies that would be appropriate to small business, such as various manpower training program for the employees of the private firms. In addition, the two joint ventures, the UMC and TSMC, the state helped to induce private (SMEs) participation in the semiconductor industry through a number of channels. For example, ten wafer fabricating firms operating as of 1993 are linked to the ITRI and ERSO.

Thus, in Taiwan, the semiconductor industry developed under the strong state influence and sound institutional settings. Under the strong state influence, the semiconductor industry in Taiwan shows different paths of growth. Compared to Korea, the semiconductor manufacturing is more dispersed and diffused by deliberate state planning. Despite its small size, Taiwan, ranks far ahead of South Korea in semiconductor patents in the number of semiconductor patents released annually (U.S.

Patent and Trademark Office 2008, Electronic Information Products Division, Patent Technology Monitoring Branch (PTMB), <http://www.uspto.gov/>).

Chapter 7: Conclusion

This thesis has analyzed the different business structures in Korea and Taiwan. In doing so, it has taken a different approach from the prior ‘institutional-embeddedness’ framework limited in the ability to explain why different business structure has been developed in Korea and Taiwan. I argued, under the ‘institutional-embeddedness’ framework, the development of different business structure in Korea and Taiwan can not be explained fully. This is because the ‘institutional-embeddedness’ examines only the states and their institutions as the sole independent variable while leaving other important variations as having minimal or no affect at all. This thesis set out to overcome such limit by re-organizing the theoretical framework to explain why Korea and Taiwan has developed different industrial structures. The findings of this thesis suggest that business structure in Korea have developed in different fashion to that of Taiwan. In Korea, vibrant interplay between governments to business conglomerates was visible while in Taiwan, restricted and central governance guided and controlled the business sectors. This difference can help to identify the organization of the different business structures we see in Korea and Taiwan.

In this concluding chapter, I will summarize the findings of this research. I will then explore the implications of these findings for the explanation of the different business structure in Korea and Taiwan. Following this, the limitations of this thesis will be discussed, as well as opportunities and avenues for further research.

Summary of findings

Through scoping relevant literatures, both primary and secondary, it was possible to identify several areas in which causes of different business structure in Korea and Taiwan can be explained. Then, this thesis has surveyed published primary literatures that are relevant and identified following the three theoretical frameworks of statist / developmental theory, new institutional economics theory, and new economic sociology influenced most of the writings.

On this basis, it was possible then to formalize the theoretical framework for this thesis. As argued earlier, this thesis assimilates close to the Fields' (1995) 'institutional-embeddedness'. However, two modifications made, I argue, have made the framework more fluent in explaining the origins of different business structures in Korea and Taiwan. Thus, I proposed a modified framework 'progressive institutional-embeddedness' to account the progression of institutional embeddedness in Korea to account how institutional settings grew along with the business conglomerates. This theoretical framework proved highly informative.

Firstly, it became clear that there was difference in the overall political condition between Korea and Taiwan, influencing Korea and Taiwan to take different measures toward the business sector. Because of the political weakness largely derived from the lack in political support basis within domestic, the First Republic and the ruling party (Democratic Party) comprised with the leading social-elite group.

The Third Republic, which came to power through the military coup of May 16th 1961, also suffered largely from lack of political support base. To overcome this deficit, the

Republic promised to deliver economic growth and the general well-being to the population of Korea. To do so, Park Chung Hee depended heavily on chaebols to meet the goal. The economic institutional arrangements were geared toward to enable the business sectors to expand their operations from import substitution industrialization to the export-oriented industrialization.

The Fifth Republic followed similar procedure of the Third Republic and extended its loans and credits to Chaebols. By this time, chaebols grew to be so powerful that the government tried to control them by KAA act. However, as explained, the government largely failed to contro Chaebols. This is evident by the example of continuation of the subsidized loan flows to Cheabols and the government bailing out Cheabols.

For Taiwan, such a weakness in political condition was less visible. Although the KMT regime in Taiwan faced number of crises that challenged the political ability, the KMT government dominated the politics in Taiwan for four decades.

The findings were as I suspected. The KMT regime in Taiwan by expressing itself as the “sole legitimate government” of China, remained in strong power by countering political opposition as exmplified by the February incident and the strict control the government applied to the business sector.

Overall, the politically weak governments in Korea sought business conglomerates to substantiate their weakness while in Taiwan, such a measure was not necessary as the KMT regime enjoyed strong political power and the government ran their own enterprises and controlled politics as well as economics.

Two civil Wars were another additional factor which explained why Korea and Taiwan did develop the different business structure. This thesis examined the two factors of U.S. foreign aid and the distribution of the properties reverted from Japanese colonialism. Both occurred from the post World War II period and accelerated by the Civil Wars. For Korea, inflow of the U.S. assistance started from the USMGIK and then increased rapidly after the Korean War. With this inflow of aid, Korea was able to recover from the war damages. The process of distribution of the reverted proprieties started under the USMGIK guidance too. I argued that these properties distributed to the elites and entrepreneurs for two things: repayment to the landlords as compensation and to early entrepreneurs as government subsidies to win their support during the War time. Most of them were sell over to the private market at below market price.

Since 1949, the KMT government regulated strong measures in industrial sector. I argued this with the following evidence: first, the visible barrier between the SOEs and the private enterprises. The allocation of the U.S. assistance depicts the widened monopolistic power of the state. In the category of planned economic aid from the United States, 49.7 per cent was distributed to state electrical power and transportation enterprises, 24.2 per cent was to state industrial and mining enterprises.

The development of the semiconductor industry was another factor this thesis has examined. It is noted that both Korea and Taiwan initiated developing the semiconductor industrialization within similar time and under similar setting. However, there are two noticeable differences in their semi-conductor development.

In Taiwan, the semiconductor industry developed under the strong state influence and sound institutional settings. Under the strong state influence, the semiconductor industry in Taiwan shows a different path of growth. Compared to Korea, the semiconductor manufacturing is more dispersed and diffused by deliberate state planning. Despite its small size, Taiwan, ranks far ahead of South Korea in semiconductor patents in the number of semiconductor patents released annually (U.S. Patent and Trademark Office, Electronic Information Products Division, Patent Technology Monitoring Branch (PTMB), <http://www.uspto.gov/>).

The Lessons to be learn: implication of the thesis.

This thesis has studied the path of different industrial structure development in Korea and Taiwan. Analysis from many literatures in the fields of developmental study, particularly the NICs have been useful and inspirational. The findings in this thesis suggest additional factors must be considered to explore in the comparison of the development of business structures. Taiwan and Korea had similar settings and conditions in developments. Under these similar settings, they have developed a uniquely different industrial structure. One developed a structure of more clustered, organized business structures while the other developed relatively diffused industrial structure.

However, both countries have made remarkable economic growth and subsequently, developments. The focus of this thesis was exploring other possible explanations and evaluates their weights in explaining the development of different industrial structures in Korea and Taiwan. The findings of this thesis suggested the limitation of Karl Fields' 'institutional-embeddedness' model to explain fully why Korea sought the chaebols

oriented developments while Taiwan developed more dispersed yet tightly organized industrial structures. Many of the prior studies argued that it was the particular institutional settings that created and developed the different business structure in Korea and Taiwan. They argue, that the Korean government has intervened in the allocation of resources creating an entrenched policy bureaucracy that controls the means for plan implementation. The institutional setup provides domestic market protection, implements industrial targeting and issue permits of entry in many industries and foreign loan guarantees. Kuznets, even calls “Korean Inc” (Kuznets 1977).

Taiwan government uses a medium term economic plan that sets macroeconomic targets and formulates sector investments plans, unlike Korea however, these plans are indicative. The planners have had little authority and limited access to policy instruments such as credit allocations. There is no institutional networks link the economic bureaucracy with the private sector.

However, this thesis argued against of the conventional argument by providing three counter-arguments. First factor examined displays the weakness in Korean politics affecting government’s choice in selecting the political support basis. Korea did not have interventionist, strong bureaucratic control able to control the means for plan implementation. Rather, it was the governments’ need in that drove such measure, often leveraging the Chaebols in return for the state objectives. The allocation of the U.S. foreign assistance and the distribution of the government vested properties in Rhee ear clearly demonstrates incompetency of the Korean bureaucrats. In Parks’ era, it was much the same. To drive economy to in compensation for his illegitimate movement, Park also needed Chaebols help and advice on the economic matters and allocated

subsidized loans and government credits. It was not like the developmentally or institutionalist w argues. It was more of an inter-play between government and business where each party mutually complimenting each other.

The Taiwan governments' role with the business sector also contradicts with, according to the findings of this thesis. The findings of this theiss argue that it was infact, Taiwan that was a strong state with able bureaucrats allocating and distributing the resources in sound manner. The political leadership was determined to prevent the concentration of resources in private hands, as it believed that a small group of powerful businessmen who controlled a large share of private resources and the financial system had caused its downfall on the mainland. Thus, the KMT government in Taiwan did its best to stay distanced to the business group politically. But economically, KMT government revealed compatibility and was able to influence the business sectors using allocation of resources as a policy mechanisms. This was illustrated in the allocation of the U.S. assistance and the handling of the Japanese reverted properties.

Claims that the KMT government in Taiwan had less effective institutional settings was also refuted by the examination of the development of semiconductor industry in Taiwan. I argued that in Taiwan, more effective and integrated institutions have developed to enable the private sector in developing the semiconductors.

Limitations

The relevance of this thesis in explaining the variance of business structure using modified framework should not disguise he fact that it has its limitations or at least, there will be limitations that others will perceive of it.

Therefore, to lessen these, a discussion of these limitations will be provided, to both highlight them as well as defend them where possible. First, the formulation of the theoretical framework itself and the variables for the study, was based on material produced in the 1980s and early 1990s. I have tried to incorporate more recent materials, but cannot guarantee that I have comprehensively covered all the literatures related to the topic. Therefore, the progressive institutional model I proposed may have been subject to change. If it is not, the validity and worth of this inquiry stands. However, even if it has changed, this inquiry should still have a utility. It will at least have provided an exploration attempt to study how different business structures developed in Korea and Taiwan. In addition, any future formulations of this kind may be informed by the approach of this study.

Second, the variables selected for the study are not inclined to quantification. Although this is not a weakness in itself, it does mean that the cause and effect relationship between the independent and dependent variables are lacking ‘substantial-proof’. However, it is a difficult task to formulate quantifiable variables based on the nature of the study.

Finally, the thesis does not comprehensively analyze all areas associated with the selected variables. Firstly, the implications of the ‘political conditions’ on development of different business structure is only one small aspect of how political structures really worked in Korea and Taiwan. Moreover, the relationship between the business and politics is only a small aspect happened in Korea and Taiwan, therefore cannot be generalized and be applicable to the study of other country. Secondly, the implication of the Civil War also has the limited implications to the condition of Korea and Taiwan.

Their implications for the particular mode of operation on the different business development in Korea and Taiwan also is limited as the discussion looks at only the limited aspects of ‘financing’ the business and did not look at other social functions which are not analyzed. These includes, labor organization, land distribution and so forth.

Finally, although analysis of the semi-conductor industrialization indicated an additional explanation of why the few Chaebols grew powerful and the expansion of Taiwan’s private business (SMEs), the explanation cannot answer the cause of the different business structure in Korea and Taiwan.

However, in defense of the options taken here, it must be state that the decision concerning these variables was based on the model I proposed itself. If the relevance of this study is pertinent only to its formulation, then that is sufficient since that was the original purpose. The incorporation of other variables will undoubtedly be of value, but for a more comprehensive study, that is well beyond the objectives of this.

Final remarks

It is suggested that to account the true dimension of the different business structure in Korea and Taiwan, one has to account not only the government and its institutional factors, but also needs to consider how such a government and institutional settings have arrived.

The study of business structure development in Korea and Taiwan is still an ongoing debate in the field of comparative political economy. The findings in this thesis will add yet another explanation to account why Korea and Taiwan have developed different business structure despite many similar conditions.

The findings in this thesis are suggestive and may hint the readers towards more insightful study of in the politics and business structure.

Bibliography

Aberbach, Joel, D., David Dollar, and Kenneth L. Sokoloff. eds. 1994. *The Role of the State in Taiwan's Development*. M.E. Sharpe.

Amsden, Alice H. 1989. *Asia's Next Giant: South Korea and late industrialization*. New York: Oxford University Press.

Amsden, Alice. 1979. "Taiwan's Economic History: A Case of Etatism and a Challenge to Dependency Theory." *Modern China*, 5: 341-80.

Amsden, Alice. 1989. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press

Bailey, Marin Neil, Eiric Zitzewitz, Barry Bosworth, and Larry E. Westphal. 1998. "Extending the East Asian Miracle: Microeconomic Evidence from Korea." *Brookings Papers on Economic Activity. Microeconomics*. Vol. 1998: 249-321.

Balassa Bela, et al. 1982. *Development Strategies in Semi-industrial Countries*, Baltimore, Maryland: The Johns Hopkins University Press.

Balassa, Bela et al. 1982. *Development Strategies in Semi-Industrial Economies*. Baltimore, London: Johns Hopkins University Press for the World Bank.

Barsky, Robert B, and Lutz Kilian. 2001. "Do We Really know that Oil Caused the Great Stagflation? A Monetary Alternative." *NBER, Macroeconomics Annual*. 16: 137-183.

Biggart, Nicole W. 1997a. "Explaining Asian economic organization: Toward a Weberian institutional perspective." In *The economic organization of East Asian capitalism*. eds. M. Orru', N.W. Biggart and G.G. Hamilton. Thousand Oaks: Sage Publications.

Biggart, Nicole W. 1997b. "Institutionalized patrimonialism in Korean Business." In *The economic organization of East Asian capitalism*. eds. Marco Orru', N.W. Biggart and G.G. Hamilton. Thousand Oaks: Sage Publications.

Brown, Clair and Greg Linden. 2006. "SEmiconductor Engineers in the Global Economy." National Academy of Engineering, Workshop on the Offshoring of Engineering: Facts, Myths, Unknowns, and Implications. Washington D.C.

Brown, Gilbert. 1973. *Korean Pricing Policies and Economic Development in the 1960s*. Baltimore: Johns Hopkins University Press.

Burmeister, Larry L. 1990. "South Korea's Rural Development Dilemma: Trade Pressures and Agriculture Sector Adjustment." *Asian Survey*. 30(7): 711-723.

Byun Byung Moon. 1994. "Growth and Recent Development of the Korean Semiconductor Industry." *Asian Survey*. 34(8): 706-720.

Caiden Gerald E. and Bun Woong Kim. ed. 1991. *A Dragon's Progress: Development Administration in Korea*, Hartford Connecticut: Kumarian Press

Chan Steve, Cal Clark, and David R. Davis. 1990. "State Entrepreneurship, Foreign Investment, Export Expansion and economic Growth: Granger Causality in Taiwan's Development." *The Journal of Conflict Resolution*, 34: 102-129.

Chan, Steve and Cal Clark. 1991. "Economic Growth and Popular: Well-Being in Taiwan: A time series Examination of Some Preliminary Hypothesis." *The Western Political Quarterly*, 44: 560-582.

Chang, Pao-Long and Chien-Tzu Tsai. 2000. "Evolution of Technology Development Strategies for Taiwan's Semiconductor Industry: Formation of Research Consortia." *Industry and Innovation*. 7(2)

Chang, Pao-Long and Chen-Tzu Tsai. 2000. "Evolution of Technology Development Strategies for Taiwan's Semiconductor Industry: formation of Research Consortia." *Industry and Innovation*. 7(2)

Chang, Sea Jin and Ungwhan Choi. 1988. "Strategy, Structure and Performance of Korean Business Groups: A Transactions Cost Approach." *The Journal of Industrial Economics*. 37: 141-158.

Cheng, T. 1990. "Political regimes and development strategies: South Korea and Taiwan." In Gary Gereffi and D.L Wyman. eds. *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*. Princeton, NJ; Princeton University Press.

Cheng, T. 1993. "Guarding the commanding heights: the state as banker in Taiwan." In *The Politics of Finance in Developing Countries*. ed. Stephan Haggard, L. Lee, and Sylvia Maxfield.. Ithaca, NY: Cornell University Press.

Cheng, Peter. P. 1989. "Taiwan 1975: A year of Transition." *Asian Survey*. 16(1): 61-65.

Cheng, Tun-Jen. 2001. "Transforming Taiwan's Economic Structure in the 20th Century." *The China Quarterly*. 165: 19-36.

Cho, Dong Sung, Dong-Jae Kim, and Dong Kee Rhee. 1998. "Latecomer Strategies: Evidence from the Semiconductor industry in Japan and Korea." *Organization Science*. 9(4): 489-505.

Choi Tae Sub. 1995. *Sa Rang E Bit Jin Ja*. [The one who is debted] Agape

Choi, Byung-sun. 1987. *Institutionalizing a Liberal Economic Order in Korea: The Strategic Management of Economic Change*. Ph.D. diss., Harvard University.

- Choi, Byung-sung. 1993. "Financial policy and big business in Korea: The Perils of Financial regulation." In *The Politics of Finance in Developing Countries*, ed. Haggard, Lee, and Maxfield. Ithaca, New York: Cornell University Press.
- Choi, Jang Jip. 1988. "Political Cleavages in South Korea." (Reprinted in) *In State and Society in Contemporary Korea* eds. Hagan Koo. Ithaca: Cornell University Press.
- Choi, Kwang. eds. 1983. *National Budget and Policy Objectives*. Seoul: EPB.
- Chou yansun and Andrew J. Nathan. 1987. "Democratizing Transition in Taiwan." *Asian Survey*. 27(3): 277-299.
- Chu Yun-han. 1989. "State Structure and Economic Adjustment in the East Asian Newly Industrializing Countries." *International Organization* 43: 647-72.
- Chu, Yu Han. 1989. "State Structure and Economic Adjustment of the East Asian Newly Industrializing Countries." *International Organization*. 43: 647-672.
- Chu, Yu Han. 1992. *Crafting Democracy in Taiwan*. National policy Research, Taipei.
- Chu, Yun Han and Jih Wen Lin. 2001. "Political Development in 20th-Century Taiwan: State-building, Regime Transformation and the Construction of National Identity." *The China Quarterly*. 165: 102-129.
- Chung Joo Young. 1997. *Si ryun Un it u do, Sil Pae nun ub da*. [An Ordeal can be overcome]. Chae Sam Ki Whak. (autobiography)
- Clark, Cal. 1987. "The Taiwan Exception: Implications for Contending Political Economy Paradigms." *International Studies Quarterly*, 31: 327-356
- Coase Ronald H. 1988. *The Firm, the Market, and the law*. Chicago and London: University of Chicago Press.

Cole, David D. and Princeton N. Lyman. 1971. *Korean Development: The Interplay of Politics and Economics*. Cambridge, Massachusetts: Harvard University Press.

Cole, David and Yung-chul Park. 1983. *Financial Developments in Korea 1945-1978*. Cambridge, Massachusetts: Harvard University Press.

Collins, Susan M. 1990. "Lessons From Korean Economic Growth." *The American Economic Review*. 80:104-107.

Collins, Susan M., and Won-Am Park. 1989. "External Debt and Macroeconomic Performance in South Korea." In *Developing Country Debt and Economic Performance*, ed. Jeffrey D. Sachs and Susan M. Collins, Vol 3, Chicago: University of Chicago Press.

Corbo Vittori and Sang-Mok Suh. eds. 1992. *Structural Adjustment in A Newly Industrialized Country: The Korean Experience*. Baltimore and London: The Johns Hopkins University Press.

Cumings, Bruce. 1984. "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences." *International Organization* 38: 1-40

Deyo, Frederic C. eds 1987. *The Political Economy of the New Asian Industrialism*. Cornell University Press.

Dickson Bruce J. 1993. "The Lessons of Defeat: The Reorganization of the Koumintang on Taiwan, 1950-52." *The China Quarterly*. 133: 56-84.

Djang, T.K. 1977. "Industry and Labor in Taiwan." Monograph Series No. 10. Taipei: Institute of Economics, Academia Sinica.

Economic Planning Board. 1978. *Handbook of Economy*. Seoul: EPB.

EIAK, 1981. Chunja Kong up Isipnyeon-sa [Twenty-year History of Korean Electronics Industry]. Seoul: The Electronic Industries Association of Korea.

EIAK. 1989. Chunja Kongup Samsipnyeon-sa [Thrity Year Hisory of Korean

Electronics Industry]. Seoul: Electronics Industries Association of Korea.

EPB, 1962. Kyung Jae Baek Su: kyung Jae Jo Sa. [White Paper on Economy: Economic Survey]. Seoul: Economic Planning Board.

Fields Karl J. 1997. "Strong States and Business Organization in Korea and Taiwan." In Business and the State in Developing Countries. Syliva Maxfield and Ben Ross Schneider. Cornell University Press.

Fields, Karl J. 1995. Enterprise and the State in Korea and Taiwan. Ithaca: Cornell University Press.

Fligstien, N. 1985. "The Spread of the Multidivisional Form Among Large Firms, 1919-1979." American Sociological Review. 50: 377-391.

Fligstien. N. 1990. The Transformation of Corporate Control. Cambridge MA: Harvard University Press.

Foreign Relation 1964-1968, Vol. XXIX, part 1, Korea

[http://www.state.gov/www/about.state/history/vol_xxix/a.html] (Retrieved July 11 2007).

Gereffi, Gary and Donald Wyman. eds. 1990. Manufacturing Miracles: Paths of Industrialization in Latin American and East Asia. Princeton: Princeton University Press

Gerlach, Michael L. 1992. Alliance Capitalism: The Social Organization of Japanese Business. Berkeley: University of California Press.

Gold, Thomas B. 1986. State and Society in the Taiwan Miracle. Armonk, N.Y.: M. E . Sharpe.

Graham, Edward M. 2003. *Reforming Korea's Industrial Conglomerates*. Washington D.C.: Institute for International Economics.

Granovetter, M. 1992. "Economic Action and Social Structure: The Problem of Embeddedness." Reprinted from *American Journal of Sociology* 1985. In Granovetter, M. and Swedberg, R. 1992. 53-81.

Granovetter, M. and Swedberg, R. eds. 1992. *The Sociology of Economic Life*, Boulder et al.: Westview Press.

Guillen, Mauro F. 2000. "Business groups in emerging economies: A resource-based view." *Academy of Management Journal*. 43(3): 362-380.

Haggard Stephan, Byung Kook Kim, and Chung-in Moon. 1991. "The Transition to Export-Led Growth in South Korea: 1954-1966." *Journal of Asian Studies* 50: 850-73.

Haggard Stephan, Chung Lee, and Sylvia Maxfield, eds, 1993. *The Politics of Finance in Developing Countries*. Ithaca, New York: Cornell University Press.

Haggard Stephan. 1989. "The East Asian NICs in Comparative Perspective." *Annals of the American Academy of Political and Social Science*. 505: 129-144.

Haggard Stephan. 1990. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*, Ithaca and London: Cornell University Press.

Haggard, Stephan and Chen-Kuo Peng. 1994. "Transition to Export-Led Growth in Taiwan." In *The Role of the State in Taiwan's Development*. eds. Aberbach, Joel, D., David Dollar, and Kenneth L. Sokoloff.

Haggard, Stephan and Chung In Moon. 1990. "Institutions and Economic Policy: Theory and a Korean Case Study." *World Politics*. 42(2): 210-237.

Haggard, Stephan and Tun-Jen Cheng. 1987. "State and foreign Capital in the East Asian NICs." In *The Political Economy of the New Asian Industrialism*. Frederic C. Deyo. Cornell University Press.

Haggard, Stephan, Byung-Kook Kim and Chung in Moon. 1991. "The Transition to Export-led Growth in South Korea: 1954-1966." *The Journal of Asian Survey*. 50: 850-873.

Hamilton Gary and Nicole Biggart. 1988. "Market, Culture, and Authority: Comparative Analysis of Management and Organization in the Far East." *American Journal of Sociology* 94: 52-94.

Hamilton Gary and Nicole Biggart. 1988. "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East." *American Journal of Sociology* 94: 52-94.

Hamilton, Gary G., 1989. "Patterns of Asian Capitalism: the Cases of Taiwan and South Korea." Meeting of the American Sociological Association, San Francisco, CA.

Hamilton, Gary G., and N.W. Biggart. 1988. "Markets, Culture, and Authority: A comparative Analysis of Management of Organization in the Far East." *American Journal of Sociology*. 94: 53-94.

Hamilton, Gary. G., Zile, William and Kim Wan-Jin. 1990. "The Network Structures of East Asian Economics." In *Capitalism in contrasting cultures.* eds. S.R. Glegg, G.S., Rodding. Berlin: Walter de gruyter.

Hastings, Max. 1988. *The Korean War, 1950-1953*. Simon & Schuster.

Heo Uk and Alexander C. Tan, 2003. "Political Choices and Economic Outcomes: A Perspective on the Differential Impact of the Financial Crisis on South Korea and Taiwan." *Comparative Political Studies*. 36(6): 679-698.

Heo Uk, and Sunwoong Kim, 2000. "Financial Crisis in South Korea: Failure of the Government-Led Development Paradigm." *Asian Survey* 40(3): 492-507

Ho, Samuel P.S. 1975. "The Economic Development of Colonial Taiwan: Evidence and Interpretation." *The Journal of Asian Studies*. 34(2): 417-439.

Ho, Samuel P.S. 1978. *Economic Development of Taiwan, 1860-1970*. New Haven, New York and London: Yale University Press.

Ho, Samuel P.S. 1980. *Small-Scale Enterprises in Korea and Taiwan*. Washington D.C.: World Bank.

Ho, Samuel P.S. 1981. "South Korea and Taiwan: Development prospects in the 1980s." *Asian Survey*. 21(12): 1175-1196.

Ho, Samuel P.S. 1987. "Economics, Economic Bureaucracy, and Taiwan's Economic Development." *Pacific Affairs*. 60(2): 226-247.

Hobday, Micheal. 1995. *Innovations in East Asia: The challenge to Japan*. Aldershot, England and Brookfield, VT: Edward Elgar Publishing Co.

Hong, Sung Gul. 1997. *The Political Economy of Industrial Policy in East Asia: The Semiconductor Industry in Taiwan and South Korea*. Cheltenham, UK: Northampton, M.A., U.S.: E. Elgar Press.

Hong, Wontak. 1979. *Trade, Distortions and Growth in Korea*. Seoul: Korean Development Institution. Seoul Korea.

Hong, Zen Wang. 2001. "Ethnicized Social Mobility in Taiwan: Mobility Patterns among owners of Small and Medium-scale Business." *Modern China*. 27(3): 328-358.

Hong, Zen Wang. 2002. "Class Structures and Social Mobility in the Initial Post-War Period." *The China Journal*. 48: 55-85.

Hughes, Helen. ed. 1988. *Achieving Industrialization in Asia*, Cambridge: Cambridge University Press

Jacobs, Bruce. 1978. "Paradoxes in the Politics of Taiwan: Lessons for Comparative Politics." *Politics (Australia)* 16(2): 239-47.

Jacoby, Neil, H. 1966. U.S. Aid to Taiwan: A study of Foreign Aid, self-help and Development. New York and London: Praeger.

Jain, J.P. 1963. "The Legal Status of Formosa: A Study of British, Chinese and Indian Views." *The American Journal of International Law*. 57(1): 25-45.

Jeon, Jei Guk. 1994. "The Political Economy of Crisis Management in the third World: A comparison of South Korea and Taiwan (1970)." *Pacific Affairs*. 67(4): 565-585.

Johnson Chalmers. 1982. MITI and the Japanese miracle: the growth of industrial policy, 1925-1975. Stanford California: Stanford University Press.

Johnson, Chalmers. 1982. MITI and the Japanese Miracle, Stanford, California: Stanford University Press.

Johnston, Carl. 2000. Taiwan Semiconductor Manufacturing Company. HBS No. N9-700-090. Boston: Harvard Business School Publishing.

Johnston. J.H. 1948. Seoul Distpatech. New York Times. (may 12).

Jones, L., and I. Sakong. 1980. Government, Business and Entrepreneurship in Economic Development. Cambridge Massachusetts: Harvard University Press.

Jones, Leory P, and Il Sakong. 1990. Government, Business, and Entrepreneurship in Economic Department: The Korean Case. Cambridge, Massachusetts: Harvard University Press.

Joo, D.Y. 1992. "Rapid Changes of the Semiconductor Industry and Korean Response." Korean Institute for Industrial Economics and Trade. (August): 28-29.

Kang David. 1995. "South Korean and Taiwanese Development and the New Institutional Economics." *International Organization*. 49(3): 555-587.

- Kang, David C., 2002. "Bad loans to Good friends: Money politics and the developmental state in South Korea." *International Organization*. 56: 177-207.
- Kerr, George. 1965. *Formosa Betrayed*. Boston: Houghton Mifflin, Chapter 5.
- Kim, Eun Mee. 1996. "The industrial organization and growth of the Korean Chaebols." In *Integrating development and organizational theories.* In *Asian Business Networks*. eds. G.G. Hamilton. Berlin and New York: Walter de Gruyter.
- Kim, Eun Mee. 1997. *Big business, Strong State: Collusion and conflict in South Korea development, 1960-1990*. Albany: State University of New York Press.
- Kim Kwang Suk and Miceal Roemer. 1979. *Growth and Structural Transformation*. Cambridge Massachusetts: Harvard University (Council on East Asian Studies)
- Kim L.S., J.W. Lee and J.J. Lee. 1987. "Korea's Entry into the Computer Industry and Its acquisition of Technological Capability." *Technovation*. 6 (1987): 277-93.
- Kim, Juoungwon. 1997. *Divided Korea, The Politics of Development: 1945-1972*. Cambridge: Harvard University Press.
- Kim, Kwan Bong. 1971. *The Korean-Japan Treaty, crisis and the instability of the Korean Political System*. New York: Praeger.
- Kim, L.S., J.W. Lee, and J.J. Lee. 1987. "Korea's Entry into the Computer Industry and Its Acquisition of Technological Capability." *Technovation*, 6: 277-293
- Kong Che-uk. 1993. *1950 Nyundae Hanguk-ui Chabonga yongu [Study of Korean Capitalists in 1950s]*. Seoul: Peaksan Sodang.
- Koo Hagen. 1990. "The Interplay of State, Social Class, and World System. In *Manufacturing Miracles: Paths of Industrialization in Latin American and East Asia*. ed. Gary Gereffi and Donald Wyman. Princeton: Princeton University Press

Koo Hagen. 1994. *State and Society in Contemporary Korea*. Ed. Ithaca: Cornell Univeristy Press.

Kuo Cheng-Tian. 1995. *Global Competitiveness and Industrial Growth in Taiwan and the Philippines*. Pittsburgh, Pennsylvania: University of Pittsburgh Press.

Kuo, Shirely W.Y., Gustav Ranis, and John C. H. Fei. eds. 1981. *The Taiwan Success Story. Rapid Growth with Improved Distribution in the Republic of China*. Boulder, Colorade: Westview Press.

Kuznets, Paul. W. 1977. *Economic Growth and Structure in the Republic of Korea*. New Haven: Yale University Press.

Kuznets, Simon. 1979. "Aspects of Post-World War II Growth in Less Devleoped countries." In *Growth, Population and Income Distriubtion: Selected Essays*. New York: W. W. Norton & Co.

Kuznets, Simon. 1979. *Growth, Population and Income Distribution: Selected Essays*. New York: W. W. Norton

Lee Byung Chul 1974. 湖巖自傳 . [An autobiography of Lee Byung-chul]. Joong Ang Ilbo Sa.

Lee Yeon-ho. 1997. *The state, Society and Big Business in South Korea*. London: Routledge..

Lee, Hyesook. 1992. *A politico-sociological study on Economic Policies under the U.S. Army Military Government in Korea*. Ph.D. Dissertation, Seoul National University, Korea.

Leff, N.H. 1978. "Industrial Organization and Entrepreneurship in the Developing countries: The Economic Groups." *Economic Development and Cultural Change*. 27:

Levi-Faur, David. 1998. *The developmental state: Israel, Taiwan and South Korea*

compared'. *Studies in Comparative International Development*, 33 (1): 65-93

Lim, Timothy C. "The origins of Societal Power in South Korea: Understanding the Physical and Human Legacies of Japanese Colonialism." *Modern Asian Studies*. 33(3): 603-633.

Lin Chian-Yuan. 1973. *Industrialization in Taiwan, 1946-1972, Trade and Import Substitution Policies for Developing Countries*. New York: Praeger Publishers.

Lin, Sein. 1974. "Sun Yet-sen and Henry George: The Essential Role of Land Policy in Their Doctrines." *American Journal of Economics and Sociology*. 33(2): 201-220.

Lyons, Gene. 1961. *Military Policy and Economic Aid: The Korean Case, 1950-1953*. Columbus: Ohio State University Press.

Matthews, John A., and Dong Sung Cho. 2000. *Tiger Technology: the creation of a semiconductor industry in East Asia*. Cambridge, U.K: New York: Cambridge University Press.

Matthews, John. A.1997. "A Silicon valley of the East: creating Taiwan's Semiconductor Industry." *California Management Review*. 34(4)

McCune, George M. 1947. "Korea: The First Year of Liberation." *Pacific Affairs*. 20(1): 3.17.

Meaney, Constance Squires. 1994. "State Policy and the Development of Taiwan's Semiconductor Industry." In *The Role of the State in Taiwan's Development*. eds. Joel Aberbach, D. Davind Dollar, and Kenneth L. Sokoloff. M.E. Sharpe.

MOEA, 2005, *The Definition of SMEs*

[<http://www.moeasmea.gov.tw/ct.asp?xItem=70&CtNode=261&mp=2>] (Retrieved May 29 2006)

- Nahm, Andrew., C. 1988. *Korea: Tradition & Transformation*. New Jersey: Hollym.
- Nam, S.W. 1979. *Hankook Kiupui Chaemoo Koojowa Chebon Cost* [Financial Structure and Capital Cost of Korean Companies]. Korean Development Institution.
- North, D.C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- Orru, Marco. 1991. "The Institutional Logic of Small-Firm Economics in Italy and Taiwan." *Studies in Comparative International Development* 26: 3-28
- Orru', Marco, Biggar, Nicole W. and Hamilton, G. G. 1991. "Organizational isomorphism in East Asia." In *The New Institutionalism in organizational analysis*. eds. W.W. Powell and P.J. DiMaggio. Chicago: The University of Chicago Press.
- Oh, Bonnie, B.C. 2002. eds. *Korea Under the American Military Governemnt, 1945-1948*. Westport, Connecticut: Praeger.
- Pak, Chi Young. 2000. *Korea under the United Nations*. Martinus Nijhoff Publisher.
- Park H, S. Kim, and D Joo, and D. Yoon. 1987. "Status and Promotion Strategy of the Semiconductor Industry in Korea. Seoul: Korea Institute for Economics and Technology, July. 371-76.
- Park Hun Joo. 2001. "Small Businesses in Korea, Japan, And Taiwan: Dirigiste Coalition Politics and Financial Policies Compared." *Asian Survey* 41(5): 846-864.
- Park, Moon Kyu. 1987. "Interest Representation in South Korea: The limits of Corporatist Control." *Asian Survey*. 27: 903-917.
- Powell Walter and Paul J. DiMaggio, eds. 1991. *The New Institutionalism in Organizational Analysis*. University of Chicago Press
- Ranis, Gustav 2002. "Lessons from Tawian's Performance: Neither Miracle nor Crisis",

In Chow, Peter C.Y. ed. "Taiwan in the Global Economy: From an Agrarian Economy to and Exporter of High-Tech Products." Ranger Publisher.

Rubinstein, Murray A. eds. 1999. *Taiwan A New History*. Armonk, New York and London: M.E. Sharpe.

Rudiger Dornbusch, Young Chul Park, Susan M. Collins, and Vittorio Corbo. 1987. "Korean Growth Policy." *Brookings Papers on Economic Activity*. 2: 389-454.

Sach, Jeffery and Susan M. Collins. 1989. *Developing Country Debt and Economic Performance*. Chicago: University of Chicago Press.

Sakong Il. 1993. "Korea in the World Economy." *Institute for International Economics*.

Scalapino, Robert and Chong-sik Lee. 1972. *Communism in Korea*, 2 vol. Berkeley: University of California Press.

Schumpeter, J.A. 1942. *Capitalism, Socialism and Democracy*. New York: Harper and Brothers.

Shafer, Michael D. 1990. "Sectors, States, and Social Forces: Korea and Zambia: confront Economic Restructuring." *Comparative Politics*. 22: 127-50.

Simon, Herbert A. 1957. "Rational Choice and the Structure of Environment." *Psychological Review*. 63:

Smelser and Swedberg, eds. 1994. *The Handbook of Economic Sociology*. Princeton N.J.: Princeton University Press.

Suh, Dae-Sook. 1982. "South Korea in 1981: The First Year of the Fifth Republic." *Asian Survey*. 22(1): 107-115.

Suraze-Villa, Luis and Pyo-Hwan Han. 1990. "The Rise of Korea's Electronics Industry: Technological Changes Growth, and Territorial Distribution." *Economic*

Geography. 66(3): 273-292

Swedberg, R. 1994. "Markets as Social Structure." In *The Handbook of Economic Sociology*. Smelser and Swedberg, eds. Princeton N.J: Princeton University Press.

U.S. Agency for International Development (USAID), 1945-September 30, 2006, Historical dollar, country report: Korea, Taiwan. Available: [<http://qesdb.usaid.gov/gbk/index.html>] (Retrieved February 28 2007).

U.S. patent and Trademark office 2008, Electronic Information Products Division, Patent Technology Monitoring Branch (PTMB). Available: [<http://www.uspto.gov>] (Retrieved 12 January 2008).

USMGIK 1948 USAMGIK Summations for successive months, summarized in August 1946 report, p. 96.

Sarafan B. D.1946. "Military Government: Korea", *Far Eastern Survey*. 15(23):349-52,

Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton University Press

Wakabayashi H. and M. Sumita. 1993. "South Korea's semiconductor Industry." *NRI Quarterly*. 2(2): 40-49.

Walter Arnold. 1989. "Bureaucratic Politics, State capacity, and Taiwan's Automobile Industrial Policy." *Modern China* 15: 178-214.

Weems. Benjamine. 1948. "Behind the Korean Election." *Far Eastern Survey*. 17(12): 142-147.

Weiss, Linda and John M. Hobson. 1995. *States and Economic Development: A Comparative Historical Analysis*. Cambridge, England: Polity Press (Blackwells).

Westphal, Larry. 1978. "The Republic of Korea's Experience with Export-led, Industrial Development." *World Development*. 6: 347-82

Westphal, Larry. E. 1990. "Industrial Policy in an Export Propelled Economy: Lessons From South Korea's Experience." *The Journal of Economic Perspective*. 4: 41-59.

Whitely, Richard D. 1992. *Business system in East Asia: Firms, markets and societies*. Londond: Sage Publications.

Williamson, Oliver. E. ed., 1990, *Industrial Organisations*, (Aldershot, Hants, England; Brookfield, Vt., U.S.A.): E. Elgar Publish.

Williamson, Oliver. E., 1999, *The Economics of Transaction Costs*, (Cheltenham, UK and Northampton, Massachusetts): E. Elgar Publish.

Williamson, Oliver. E., Winter, Sidney G., 1993, *The Nature of the Firm: Origins, Evolution, and development*, (New York: N.Y): Oxford University Press.

Woo, Jung Eun. 1991. *Race to the Swift: State and Finance in Korean Industrialization*. New York: Columbia University Press.

World Bank. Publication. External affairs, Communications & U.N. Affair. 1993. *The East Asian Miracle: Economic growth and Public Policy*. New York: Oxford University Press.

Wu, Yongping. 2005. *A Political explanation of economic growth: State survival, bureaucratic politics, and private enterprise in the making of Taiwan's economy, 1950-1985*. Cambridge Massachusetts: Harvard University Press.

Wu, Yu-Shan. 2001. "Taiwan in 2000: Managing the Aftershocks from Power Transfer." *Asian Survey*. 41(1): 40-48.

Wu, Yu-Shan. 1989. "Marketization of Politics: The Taiwan Experience." *Asian Survey*. 29(4): 382-400.

Yang, Martin. C. 1979. *Socio-Economic Results of Land Reform in Taiwan*. Honolulu:

University Press of Hawaii.

Yoffie, David. B. 1981. "The Newly Industrializing countries and the Political Economy of Protectionism." *International Studies Quarterly*. 25(4): 569-599.